

**New Issue**

This Official Statement has been prepared by the State of Wisconsin and provides information on the 2002 Series 2 Bonds. Some of the information appears on this cover page for ready reference. A prospective investor should read the entire Official Statement to make an informed investment decision. Unless otherwise indicated, capitalized terms are defined in **APPENDIX D**.

**\$85,575,000****STATE OF WISCONSIN****CLEAN WATER REVENUE REFUNDING BONDS, 2002 SERIES 2****Dated: August 1, 2002****Due: June 1, as shown below**

<b>Ratings—See page 3</b>	Based on MBIA <u>Insurance</u>	Underlying <u>Rating</u>	
	AAA	AA+	Fitch Ratings
	Aaa	Aa2	Moody's Investors Service, Inc.
	AAA	AA+	Standard & Poor's Ratings Services

**Tax Exemption** Interest on the 2002 Series 2 Bonds is, for federal income tax purposes, excluded from gross income and is not an item of tax preference. Interest on the 2002 Series 2 Bonds is subject to State of Wisconsin income and franchise taxes—**Pages 13-15**.

**Redemption** The 2002 Series 2 Bonds are not subject to redemption prior to maturity.

**Security** The 2002 Series 2 Bonds are payable solely from (1) Loan repayments, (2) the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund (which holds general obligation bonds of the State), and (3) all other Pledged Receipts. One municipal entity is currently the source of 20 percent or more of the cash flow servicing the Outstanding Bonds—**Pages 4-5**.

**Priority** The 2002 Series 2 Bonds are issued on a parity with all other bonds previously or hereafter issued under the General Resolution —**Page 4**.

**Insurance** Payment of the principal of and interest on the 2002 Series 2 Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation simultaneously with the delivery of the 2002 Series 2 Bonds—**Pages 5-8**.



**Purpose** Proceeds are being used to advance refund previously issued Outstanding Bonds and to pay for costs of issuance—**Pages 1-2**.

**Interest Payment Dates** June 1 and December 1, commencing December 1, 2002

**Closing/Settlement** On or about August 7, 2002

**Denominations** Integral multiples of \$5,000

**Trustee/Registrar/Paying Agent** U.S. Bank National Association

**Bond Counsel** Michael Best & Friedrich LLP

**Issuer Contact** Wisconsin Capital Finance Office—(608) 266-2305; [capfin@doa.state.wi.us](mailto:capfin@doa.state.wi.us)

**Book-Entry-Only Form** The Depository Trust Company—**Pages 8-10**

**2001 Annual Report** This Official Statement incorporates by reference **Parts I, II, and VI** of the State of Wisconsin Continuing Disclosure Annual Report, dated December 19, 2001.

The prices and yields below were determined through negotiations on July 30, 2002. The Underwriters have agreed, subject to certain conditions, to purchase the 2002 Series 2 Bonds at a purchase price of \$92,424,195.21.

CUSIP	Year (June 1)	Principal Amount	Interest Rate	Yield at Issuance	Price at Issuance	First Optional Redemption Date
977092 LH6	2003	\$ 995,000	3.00%	1.56%	101.162%	Not Callable
977092 LJ2	2004	240,000	3.00	1.83	102.079	Not Callable
977092 LK9	2005	4,940,000	5.00	2.32	107.263	Not Callable
977092 LL7	2006	9,825,000	5.00	2.69	108.322	Not Callable
977092 LM5	2007	10,315,000	5.00	2.99	108.950	Not Callable
977092 LN3	2008	14,915,000	5.25	3.32	110.127	Not Callable
977092 LP8	2009	4,600,000	5.25	3.55	110.207	Not Callable
977092 LQ6	2010	4,840,000	4.00	3.76	101.608	Not Callable
977092 LR4	2011	9,850,000	4.00	3.86	101.033	Not Callable
977092 LS2	2012	5,185,000	5.50	3.96	112.419	Not Callable
977092 LT0	2013	8,640,000	5.50	4.06	112.498	Not Callable
977092 LU7	2014	3,555,000	5.50	4.17	112.303	Not Callable
977092 LV5	2015	3,740,000	5.50	4.28	111.932	Not Callable
977092 LW3	2016	3,935,000	5.50	4.36	111.731	Not Callable

**Morgan Stanley****Bear, Stearns & Co. Inc.****Jackson Securities Inc.**

July 31, 2002

This document is the “official” statement—that is, it contains the only authorized information about the offering of the 2002 Series 2 Bonds. This document isn’t an offer or solicitation for the 2002 Series 2 Bonds, and no unlawful offer, solicitation, or sale may occur through the use of this document or otherwise. This document isn’t a contract, and it provides no investment advice. Prospective investors should consult their advisors and legal counsel with questions about this document, the 2002 Series 2 Bonds, and anything else related to the offering.

The purpose of this document is to provide prospective investors with information that may be important in making an investment decision. It may not be used for any other purpose without the State’s permission. The State is the author of this document and is responsible for its accuracy and completeness. The Underwriters are not the authors of this document. In accordance with their responsibilities under federal securities laws, the Underwriters are required to review the information in this document and must have a reasonable basis for their belief in the accuracy and completeness of its key representations.

The estimates, forecasts, projections, and opinions in this document aren’t hard facts, and no one guarantees them. Some of the people who prepared, compiled, or reviewed this information had specific functions that covered some aspects of the offering but not others. For example, financial staff focused on quantitative financial information, and legal counsel focused on specific documents or legal issues assigned to them.

No dealer, broker, sales representative, or other person has been authorized to give any information or to make any representations about the 2002 Series 2 Bonds other than what is in this document. The information and expressions of opinion in this document may change without notice. Neither the delivery of this document nor any sale of the 2002 Series 2 Bonds implies that there has been no change in the other matters contained in this document since its date. Material referred to in this document is not part of this document unless expressly included.

In connection with the offering of the 2002 Series 2 Bonds, the Underwriters may overallocate or effect transactions which stabilize or maintain the market price of such 2002 Series 2 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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**STATE OFFICIALS PARTICIPATING IN THE  
ISSUANCE AND SALE OF THE 2002 SERIES 2 BONDS**

**BUILDING COMMISSION MEMBERS**

<b>Voting Members</b>	<b>Term of Office Expires</b>
Governor Scott McCallum, Chairperson	January 6, 2003
Senator Fred A. Risser, Vice-Chairperson	January 3, 2005
Senator Mark Meyer	January 3, 2005
Senator Carol Roessler	January 3, 2005
Representative Timothy Hoven	January 6, 2003
Representative Jeffrey Plale	January 6, 2003
Representative Daniel Vrakus	January 6, 2003
Mr. Bryce Styza, Citizen Member	At the pleasure of the Governor
<b>Nonvoting, Advisory Members</b>	
Mr. George Lightbourn, Secretary Department of Administration	At the pleasure of the Governor
Mr. Adel Tabrizi, State Chief Engineer Department of Administration	_____
Vacant, State Chief Architect Department of Administration	_____
<b>Building Commission Secretary</b>	
Mr. Robert G. Cramer, Administrator Division of Facilities Development Department of Administration	At the pleasure of the Building Commission and Secretary of Administration

**OTHER PARTICIPANTS**

Mr. Jack C. Voight State Treasurer	January 6, 2003
Mr. James E. Doyle State Attorney General	January 6, 2003
Mr. Darrell Bazzell, Secretary Department of Natural Resources	At the pleasure of the Governor

**DEBT MANAGEMENT AND DISCLOSURE**

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## SUMMARY DESCRIPTION OF THE 2002 SERIES 2 BONDS

*Selected information is presented on this page for the convenience of the user. To make an informed decision regarding the 2002 Series 2 Bonds, a prospective investor should read the entire Official Statement. Certain capitalized terms are defined in **APPENDIX D**.*

Description:	State of Wisconsin Clean Water Revenue Refunding Bonds, 2002 Series 2
Principal Amount:	\$85,575,000
Denominations:	\$5,000 or integral multiples thereof
Dated Date:	August 1, 2002
Interest Payment:	June 1 and December 1, commencing December 1, 2002
Maturities:	June 1, 2003-2016
Record Date:	May 15 and November 15
Redemption:	The 2002 Series 2 Bonds are not subject to redemption prior to maturity.
Form:	Book-entry-only form.
Trustee/Paying Agent:	All payments of principal and interest on the 2002 Series 2 Bonds will be paid by U.S. Bank National Association, as successor to Firststar Trust Company.
Security for Bonds:	<p>The 2002 Series 2 Bonds, and all other parity Bonds previously issued or to be issued in the future, are payable solely from:</p> <ul style="list-style-type: none"> <li>• Loan Repayments,</li> <li>• The Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund (which holds general obligations of the State), each established by the General Resolution, and</li> <li>• All other Pledged Receipts.</li> </ul> <p>Based on cash-flow calculations as of December 31, 2001, there is one municipal entity that is currently the source of more than 20 percent of the cash flow servicing the Outstanding Bonds. This is the Milwaukee Metropolitan Sewerage District, which has issued Municipal Obligations to evidence repayment of Loans made from the Leveraged Loan Portfolio—See “<b>2002 SERIES 2 BONDS; Security</b>”.</p>
Insurance	<p>Payment of the principal of and interest on the 2002 Series 2 Bonds when due will be insured by a financial guaranty insurance policy to be issued by MBIA Insurance Corporation (<b>MBIA</b>) simultaneously with the delivery of the 2002 Series 2 Bonds— See “<b>2002 SERIES 2 BONDS; The MBIA Insurance Corporation Insurance Policy</b>”.</p>
Outstanding Parity Bonds:	\$657,405,000 as of June 30, 2002.
Authority for Issuance:	The 2002 Series 2 Bonds are authorized under the Act and Chapter 18, Wisconsin Statutes.
Purpose:	The 2002 Series 2 Bonds are being issued to advance refund previously issued Outstanding Bonds, and to pay for costs of issuance—See “ <b>PLAN OF REFUNDING</b> ”
Additional Bonds:	Additional Bonds may be issued without limitation as to the amount, subject to any applicable statutory limitation, payable on a parity with the 2002 Series 2 Bonds and all other Bonds previously issued, provided that the Loan Credit Reserve Fund Requirement and the Subsidy Bond Requirement are satisfied—See “ <b>2002 SERIES 2 BONDS; Security</b> ”.

## OFFICIAL STATEMENT

**\$85,575,000**

## STATE OF WISCONSIN

## CLEAN WATER REVENUE REFUNDING BONDS, 2002 SERIES 2

### INTRODUCTION

This Official Statement sets forth information about the \$85,575,000 Clean Water Revenue Refunding Bonds, 2002 Series 2 (**2002 Series 2 Bonds**) issued by the State of Wisconsin (**State**). This Official Statement includes by reference **Parts I, II, and VI** of the State of Wisconsin Continuing Disclosure Annual Report, dated December 19, 2001 (**2001 Annual Report**).

The 2002 Series 2 Bonds are authorized under the Wisconsin Statutes, a Clean Water Revenue Bond General Resolution (**General Resolution**) adopted by the State of Wisconsin Building Commission (**Commission**) on March 7, 1991, and a **Series Resolution** adopted by the Commission on January 16, 2002. The General Resolution and the Series Resolution are collectively referred to as the **Resolution**.

The Commission has authorized the State Department of Administration (**DOA**) to prepare this Official Statement. This Official Statement contains information furnished by the State or obtained from the sources indicated. Requests for additional information may be directed to:

*Contact:* Capital Finance Office  
Attn: Capital Finance Director  
*Phone:* (608) 266-2305  
*Mail:* 101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
*E-mail:* [capfin@doa.state.wi.us](mailto:capfin@doa.state.wi.us)

Unless otherwise indicated, capitalized terms are defined in **APPENDIX D**.

### PLAN OF REFUNDING

#### General

The 2002 Series 2 Bonds are being issued to refund certain maturities of bonds previously issued and outstanding under the General Resolution. The refunded maturities are currently outstanding in the total principal amount of \$86,095,000 (**Refunded Bonds**). **APPENDIX G** identifies and provides information on the Refunded Bonds.

To provide for the refunding of the Refunded Bonds, 2002 Series 2 Bond proceeds will be used to purchase direct general obligations of the United States (**Government Obligations**). These Government Obligations, together with the interest to be earned and a beginning cash deposit, will be sufficient:

- to pay when due, the interest on the Refunded Bonds to and including their respective redemption dates, and
- to redeem or pay the principal of the Refunded Bonds on their respective redemption dates at their respective redemption prices.

### **Refunding Escrow Agreement**

The Government Obligations, the beginning cash balance, and the interest earnings will be held in an escrow fund (**Escrow Fund**) created by a Refunding Escrow Agreement (**Escrow Agreement**), between the State and The Bank of New York (**Escrow Trustee**) solely for the benefit of the owners of the Refunded Bonds.

The Escrow Fund will be held by the Escrow Trustee in trust to make principal and interest payments on the Refunded Bonds. The Escrow Fund will be held by the Escrow Trustee separate and apart from all other funds or accounts held by the Escrow Trustee. The Escrow Trustee will have no lien whatsoever upon any moneys in the Escrow Fund for any of its fees and costs incurred in carrying out the provisions of the Escrow Agreement. Instead, the State will pay these fees and costs to the Escrow Trustee from other available funds.

The accuracy of the mathematical computations of the adequacy of the amounts deposited into the Escrow Fund has been verified by The Arbitrage Group, Inc., Tuscaloosa, Alabama.

In the opinion of Bond Counsel, upon the State making the deposit into the Escrow Fund, the Refunded Bonds will be deemed to be paid for purposes of the General Resolution and will no longer be considered outstanding under the General Resolution.

## **ENVIRONMENTAL IMPROVEMENT FUND**

The Environmental Improvement Fund provides for three separate environmental financing programs.

- **Clean Water Fund Program.** The Clean Water Fund Program is a municipal financial assistance program for water pollution control projects, has been in existence since 1990, and includes the State's implementation of a Federal State Revolving Fund Program under the Federal Water Quality Act of 1987.
- **Safe Drinking Water Loan Program.** The Safe Drinking Water Loan Program is a municipal loan program for drinking water projects and includes the State's implementation of the federal Safe Drinking Water Act Amendments of 1996.
- **Land Recycling Loan Program.** The Land Recycling Loan Program is a municipal loan program for remediation of contaminated lands.

The State has used Outstanding Bonds to previously fund certain loans made under the Clean Water Fund Program.

## **CLEAN WATER FUND PROGRAM**

The Clean Water Fund Program makes loans to Municipalities for the construction or improvement of their water pollution control projects. Information concerning the Clean Water Fund Program is included as **APPENDIX A**, which includes by reference Part VI of the 2001 Annual Report. Part VI of the 2001 Annual Report presents the following information on the Clean Water Fund Program; (1) overview, (2) plan of finance, (3) financial assistance, (4) funding levels, (5) capitalization grants, (6) management, and (7) operating agreement with the United States Environmental Protection Agency (**EPA**). Part VI of the 2001 Annual Report also includes the Auditor's report and financial statements as of June 30, 2001 for the Environmental Improvement Fund, which includes the Clean Water Fund Program.

The Clean Water Fund Program is composed of the following:

- **Leveraged Loan Portfolio**, which is funded with Bond proceeds,

- **Direct Loan Portfolio**, which is funded with federal capitalization grants and required State match along with repayments of principal and interest, and
- **Proprietary Loan Portfolio**, which is funded with State general obligation bond proceeds along with repayments of principal and interest.

Repayments from all Leveraged Loans (**Loans**), but not from Direct Loans or Proprietary Loans, are pledged to the repayment of the Bonds.

Direct Loans, Proprietary Loans, and Leveraged Loans are made to Municipalities pursuant to Financial Assistance Agreements. As evidence of each loan, the Municipality is required to issue and deliver to the State a bond or note of the Municipality (**Municipal Obligation**) obligating the Municipality to repay the loan on the maturity schedule and at the interest rate set forth in the Financial Assistance Agreement. Most loans have been and are expected to be made at interest rates that are below market rates.

## **2002 SERIES 2 BONDS**

### **General**

The **cover of this Official Statement** sets forth the maturity dates, amounts, and interest rates for the 2002 Series 2 Bonds.

The 2002 Series 2 Bonds will be dated August 1, 2002 and will bear interest from that date, payable on June 1 and December 1 of each year, beginning on December 1, 2002.

Interest on the 2002 Series 2 Bonds will be computed on the basis of a 30-day month and a 360-day year. Payment of principal and interest for each 2002 Series 2 Bond will be paid to the registered owner of the 2002 Series 2 Bonds. The 2002 Series 2 Bonds are being issued in book-entry-only form, so the registered owner will be a securities depository-initially, a nominee of The Depository Trust Company, New York, New York (**DTC**).

The 2002 Series 2 Bonds are issued as fully registered bonds without coupons in denominations of \$5,000 or multiples of \$5,000.

U. S. Bank National Association, as successor to Firststar Trust Company, is the trustee for the Bonds (**Trustee**). In addition, the Trustee is the registrar and paying agent (**Paying Agent**) for the 2002 Series 2 Bonds.

### **Redemption Provisions**

The 2002 Series 2 Bonds are not subject to redemption prior to maturity

### **Ratings**

At the State's request, several rating agencies have rated the 2002 Series 2 Bonds with the understanding that upon delivery of the 2002 Series 2 Bonds, a financial guaranty insurance policy insuring the payment when due of principal and interest on the 2002 Series 2 Bonds will be issued by MBIA.

<i>Rating</i>	<i>Rating Agency</i>
AAA	Fitch Ratings
Aaa	Moody's Investors Service, Inc.
AAA	Standard and Poor's Ratings Services

In addition, at the State's request, several rating agencies have assigned an underlying rating to the 2002 Series 2 Bonds and confirmed the rating on the Outstanding Bonds:

<i>Rating</i>	<i>Rating Agency</i>
AA+	Fitch Ratings
Aa2	Moody's Investors Service, Inc.
AA+	Standard and Poor's Ratings Services

Any explanation of the significance of a rating may only be obtained from the rating service furnishing that rating. There is no assurance a rating given will be maintained for any period of time; a rating may be lowered or withdrawn entirely by the rating service if in its judgment circumstances so warrant. Any downgrade or withdrawal of a rating may have an adverse effect on the market price of the 2002 Series 2 Bonds and the Outstanding Bonds.

### **Security**

The 2002 Series 2 Bonds are issued on a parity with all other bonds previously or to be issued pursuant to the General Resolution. The 2002 Series 2 Bonds and all other bonds issued under the General Resolution are collectively referred to as the **Bonds**.

The 2002 Series 2 Bonds are the eleventh Series of Bonds to be issued under the General Resolution. The legislature has authorized the issuance of \$1.398 billion of revenue bonds (not including refunding bonds) for the Clean Water Fund Program. The State has previously issued \$810 million of Bonds and an additional \$186 million of refunding Bonds. As of June 30, 2002, \$657 million of Bonds were outstanding.

The Bonds are special obligations of the State, payable solely from the revenues, receipts, funds, and moneys pledged under the General Resolution. Debt service on the 2002 Series 2 Bonds and all other parity Bonds is secured by a pledge of:

- Repayment of Loans made to Municipalities.
- Amounts in the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund (which holds State general obligation bonds), each established pursuant to the General Resolution.
- All other Pledged Receipts.

*The State is not obligated to pay the principal of, interest on, or redemption price of the 2002 Series 2 Bonds and all other parity Bonds from any funds of the State other than those pledged pursuant to the General Resolution, and neither the full faith and credit nor the taxing power of the State or any agency, instrumentality, or political subdivision thereof is pledged to the payment of the principal of, interest on, or redemption price of the Bonds.*

The General Resolution establishes the amount and timing of funds and securities required to be deposited or on deposit in the Loan Credit Reserve Fund, based on Loan Credit Reserve Fund Schedules reviewed by no less than two Rating Agencies. To the extent the amount of deposit required by the Schedule approved by one Rating Agency differs from the amount required by another Rating Agency, the larger amount is required. As of June 30, 2002 the amount held in the Loan Credit Reserve Fund was \$73 million, and the amount required on such date was \$59 million. See **APPENDIX E**.

Prior to the issuance of additional parity Bonds the State must certify that, upon the delivery of such Bonds, there will be on deposit in the Subsidy Fund an amount at least equal to the Subsidy Fund Requirement, and in the Loan Credit Reserve Fund an amount at least equal to the Loan Credit Reserve Fund Requirement.

Further information on the security and source of payment for the Bonds, including information on (1) Pledged Receipts, (2) Loans, (3) Subsidy Fund, (4) Loan Credit Reserve Fund, (5) Statutory Powers, (6) State financial participation, (7) Additional Bonds, and (8) the General

Resolution, is included as **APPENDIX A**, which incorporates by reference Part VI of the 2001 Annual Report.

#### *Subsidy Fund Requirement*

Prior to disbursement from the Loan Fund the State is required by the Resolution, to meet the Subsidy Fund Requirement by depositing cash, Subsidy Funds, or loan assets in the appropriate funds and accounts. As of June 30, 2002, the Environmental Improvement Fund had purchased \$137 million of State general obligation bonds that were deposited into the Subsidy Fund, and the amortized balance as of this date was \$108 million. The State may transfer funds from the Loan Fund to the Revenue Fund to pay a portion of Debt Service on the Bonds, provided that following such transfer the Subsidy Fund Requirement is met.

#### *Milwaukee Metropolitan Sewerage District*

Based on cash-flow calculations as of December 31, 2001, the Milwaukee Metropolitan Sewerage District (**MMSD**) was the source of approximately 20.27 percent of the gross cash flow servicing the Outstanding Bonds. MMSD has issued Municipal Obligations to evidence repayments of Loans made from the Leveraged Loan Portfolio. The Municipal Obligations issued by MMSD are general obligations, for which MMSD has made an irrevocable levy of ad valorem property taxes sufficient to pay debt service when due.

Information concerning MMSD is included in **APPENDIX B**, which includes by reference the MMSD Comprehensive Annual Financial Report for the period ending December 31, 2001 (**MMSD CAFR**).

#### *The State*

The Subsidy Fund currently holds general obligation bonds of the State. Based on Subsidy Fund levels and cash flow calculations as of December 31, 2001, the State was the source of approximately 19.24 percent of the gross cash flow servicing the Outstanding Bonds. This percentage will not change significantly as a result of the issuance of the 2002 Series 2 Bonds.

The State is located in the Midwest among the northernmost tier of states. The State ranks 18th among the states in population and 26th in land area. Wisconsin attained statehood in 1848, its capital is Madison, and its largest city is Milwaukee.

Information concerning the State and its financial condition is included as **APPENDIX C**, which includes by reference Part II of the 2001 Annual Report.

#### **The MBIA Insurance Corporation Insurance Policy**

The following information has been furnished by MBIA Insurance Corporation (**MBIA**) for use in this Official Statement. Reference is made to **APPENDIX H** for a specimen of MBIA's policy.

MBIA's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the 2002 Series 2 Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by MBIA's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the 2002 Series 2 Bonds pursuant to a final judgment by a court of

competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (**Preference**).

MBIA's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any 2002 Series 2 Bond. MBIA's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of 2002 Series 2 Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal or interest on the 2002 Series 2 Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the 2002 Series 2 Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a 2002 Series 2 Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such 2002 Series 2 Bonds or presentment of such other proof of ownership of the 2002 Series 2 Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the 2002 Series 2 Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the 2002 Series 2 Bonds in any legal proceeding related to payment of insured amounts on the 2002 Series 2 Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners or the Paying Agent payment of the insured amounts due on such 2002 Series 2 Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

*MBIA*

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (**Company**). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "The MBIA Insurance Corporation Insurance Policy". Additionally, MBIA makes no representation regarding the 2002 Series 2 Bonds or the advisability of investing in the 2002 Series 2 Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

*MBIA Information*

The following documents filed by the Company with the Securities and Exchange Commission (SEC) are incorporated herein by reference:

- The Company's Annual Report on Form 10-K for the year ended December 31, 2001; and
- The Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the 2002 Series 2 Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002), are available (i) over the Internet at the SEC's web site; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 2002, MBIA had admitted assets of \$8.6 billion (unaudited), total liabilities of \$5.7 billion (unaudited), and total capital and surplus of \$2.9 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

*Financial Strength Ratings of MBIA*

- Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."
- Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."
- Fitch, Inc. rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the 2002 Series 2 Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the 2002 Series 2 Bonds. MBIA does not guaranty the market price of the 2002 Series 2 Bonds nor does it guaranty that the ratings on the 2002 Series 2 Bonds will not be revised or withdrawn.

### **Payment and Registration of 2002 Series 2 Bonds**

How the 2002 Series 2 Bonds are paid depends on whether or not they are in book-entry-only form.

The 2002 Series 2 Bonds are in book-entry-only form. Payment of principal will be made by wire transfer to the securities depository or its nominee upon the presentation and surrender of the 2002 Series 2 Bonds at the principal office of the Paying Agent—which is the Trustee. Payment of interest will be made by wire transfer on the payment date to the securities depository or its nominee.

If the 2002 Series 2 Bonds are not in book-entry-only form, payment of principal will be made by check or draft issued upon the presentation and surrender of the Bonds at the principal office of the Paying Agent. Payment of interest due on the Bonds will be made by check or draft mailed to the registered owner shown in the registration book at the close of business on the 15th day preceding such interest payment date or, if such day shall not be a business day, the immediately preceding business day (**Record Date**), or with respect to the owner of \$1 million principal amount or more of 2002 Series 2 Bonds outstanding, by wire transfer to such account as the owner may designate.

The Trustee is not required to transfer or exchange any 2002 Series 2 Bond during the 15 calendar days before the sending or publication of notice of any proposed redemption of the 2002 Series 2 Bonds, or in the case of the proposed redemption of 2002 Series 2 Bonds, next preceding the date of the selection of the 2002 Series 2 Bonds to be redeemed. In the event that less than all of the principal amount of a maturity is redeemed, the Trustee shall issue a new 2002 Series 2 Bond certificate or certificates in the principal amount outstanding after redemption on the redemption date.

### **Book-Entry-Only Form**

Initially, DTC will act as securities depository for the 2002 Series 2 Bonds. The Trustee will register all 2002 Series 2 Bonds in the name of Cede & Co. (DTC's partnership nominee). DTC will receive one fully registered 2002 Series 2 Bond for each maturity.

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (**Direct Participants**) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and

dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (**Indirect Participants**). The Rules applicable to DTC and its Direct and Indirect Participants—that is, **Participants**—are on file with the Securities and Exchange Commission.

Purchases of the 2002 Series 2 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2002 Series 2 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2002 Series 2 Bond (**Beneficial Owner**) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2002 Series 2 Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 2002 Series 2 Bonds, except in the event that use of the book-entry system for the 2002 Series 2 Bonds is discontinued.

To facilitate subsequent transfers, all 2002 Series 2 Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the 2002 Series 2 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2002 Series 2 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2002 Series 2 Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices, if any, shall be sent to Cede & Co. If less than all of the 2002 Series 2 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 2002 Series 2 Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the State as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the 2002 Series 2 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the 2002 Series 2 Bonds will be made to DTC by the Trustee. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of the State or the Trustee or DTC, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 2002 Series 2 Bonds at any time by giving reasonable notice to the State. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

The State may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC’s book-entry system has been obtained from DTC; the State takes no responsibility for its accuracy.

No assurance can be given by the State or the Trustee that DTC, Direct Participants and Indirect Participants will promptly transfer payments or notices received with respect to the 2002 Series 2 Bonds. The State and the Trustee assume no liability for the failure of DTC, Direct Participants or Indirect Participants to transfer to the Beneficial Owner payments or notices received with respect to the 2002 Series 2 Bonds.

Similarly, no assurance can be given by the State that DTC will abide by its procedures or that such procedures will not be changed from time to time. In the event that a successor securities depository is designated, it may establish different procedures.

**Sources and Uses of Funds**

It is anticipated that the proceeds of the 2002 Series 2 Bonds, other than accrued interest, will be applied as follows:

**Sources**

Principal Amount of 2002 Series 2 Bonds .....	\$85,575,000.00
Original Issue Premium.....	7,344,710.10
Total Sources.....	<u>\$92,919,710.10</u>

**Uses**

Deposit to Escrow Fund .....	\$92,043,813.26
Underwriters’ Discount.....	495,514.89
Insurance Premium.....	230,000.00
Costs of Issuance.....	150,381.95
Total Uses.....	<u>\$92,919,710.10</u>

**LOANS**

The Wisconsin Statutes set forth some of the requirements for eligibility of a Municipality to receive financial assistance from the Clean Water Fund Program. Additional information concerning the loan application process, lending criteria, levy limit for counties, commitments, and financial assistance agreements is described under “LOANS” in Part VI of the 2001 Annual Report. See **APPENDIX A**.

**OTHER MATTERS**

**Borrowing Plans for 2002**

This is the second series of Clean Water Revenue Bonds to be issued in this calendar year. The State previously issued \$100 million of Clean Water Revenue Bonds on May 14, 2002 that are being used primarily to make Loans under the Clean Water Fund Program to Municipalities for the construction or improvement of their water pollution abatement projects. After the issuance of the 2002 Series 2 Bonds, there will remain authority for approximately \$23 million of

additional Clean Water Revenue Refunding Bonds. The timing and amount of any additional refunding bonds depend on market conditions.

### Underwriting

The 2002 Series 2 Bonds are being purchased by the Underwriters, for which Morgan Stanley & Co. Incorporated is acting as representative. The Underwriters have agreed, subject to certain conditions, to purchase from the State the 2002 Series 2 Bonds described on the front cover of this Official Statement at an aggregate purchase price, exclusive of accrued interest, of \$92,424,195.21, reflecting an original issue premium of \$7,344,710.10 and underwriters' discount of \$495,514.89. The Underwriters have agreed to reoffer the 2002 Series 2 Bonds at the public offering prices or yields set forth on the front cover of this Official Statement. The 2002 Series 2 Bonds may be offered and sold to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than such public offering prices and such prices may be changed, from time to time, by the Underwriters. The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all the 2002 Series 2 Bonds if any 2002 Series 2 Bonds are purchased.

Certain legal matters will be passed upon for the Underwriters by their counsel, Quarles & Brady LLP.

### Reference Information About 2002 Series 2 Bonds

The following table—as well as the table on the cover— includes information about the 2002 Series 2 Bonds and is provided for reference. The CUSIP number for each maturity has been obtained from sources believed to be reliable, but the State is not responsible for the correctness of the CUSIP numbers. The reoffering yields and prices have been provided by the Underwriters in order to allow the computation of yield for federal tax law compliance. The price at issuance is the lower of price to maturity or price to call.

#### State of Wisconsin Clean Water Revenue Refunding Bonds, 2002 Series 2

**Dated Date:** August 1, 2002  
**First Interest Date:** December 1, 2002  
**Delivery Date:** On or about August 7, 2002

CUSIP	Year (June 1)	Principal Amount	Interest Rate	Yield at Issuance	Price at Issuance	First Optional Redemption Date
977092 LH6	2003	\$995,000	3.00%	1.56%	101.162%	Not Callable
977092 LJ2	2004	240,000	3.00	1.83	102.079	Not Callable
977092 LK9	2005	4,940,000	5.00	2.32	107.263	Not Callable
977092 LL7	2006	9,825,000	5.00	2.69	108.322	Not Callable
977092 LM5	2007	10,315,000	5.00	2.99	108.950	Not Callable
977092 LN3	2008	14,915,000	5.25	3.32	110.127	Not Callable
977092 LP8	2009	4,600,000	5.25	3.55	110.207	Not Callable
977092 LQ6	2010	4,840,000	4.00	3.76	101.608	Not Callable
977092 LR4	2011	9,850,000	4.00	3.86	101.033	Not Callable
977092 LS2	2012	5,185,000	5.50	3.96	112.419	Not Callable
977092 LT0	2013	8,640,000	5.50	4.06	112.498	Not Callable
977092 LU7	2014	3,555,000	5.50	4.17	112.303	Not Callable
977092 LV5	2015	3,740,000	5.50	4.28	111.932	Not Callable
977092 LW3	2016	3,935,000	5.50	4.36	111.731	Not Callable

### Financial Advisor

First Albany Corporation is employed by the State to perform professional services in the capacity of financial advisor. In its role as financial advisor to the State, it has provided advice on

the plan of financing and structure of the 2002 Series 2 Bonds, and reviewed certain legal and disclosure documents, including this Official Statement, for financial matters.

### **Verification of Mathematical Computations**

The arithmetical accuracy of the mathematical computations supporting the adequacy of the maturing principal amounts of, and interest earned on, the Government Obligations and beginning cash balance deposited pursuant to the Escrow Agreement, to pay the principal of, redemption price, if any, and interest on the Refunded Bonds, and the arithmetical accuracy of the mathematical computations supporting the conclusion that the refunding aspects of the 2002 Series 2 Bonds will not cause such 2002 Series 2 Bonds to be “arbitrage bonds” under Section 148 of the Internal Revenue Code, will be verified by The Arbitrage Group, Inc., Tuscaloosa, Alabama, as a condition to the delivery of the 2002 Series 2 Bonds

### **Legal Investment**

State law provides that the 2002 Series 2 Bonds are legal investments for the following:

- Banks, trust companies, savings banks and institutions, savings and loan associations, credit unions, investment companies, insurance companies, insurance associations, and other persons or entities carrying on a banking or insurance business.
- Executors, administrators, guardians, trustees, and other fiduciaries.
- The State and all public officers, municipal corporations, political subdivisions and public bodies.

### **Certain Legal Matters**

Legal matters incident to the authorization, issuance and sale of the 2002 Series 2 Bonds are subject to the approval of Michael Best & Friedrich LLP (**Bond Counsel**), whose approving opinion, substantially in the form shown in **APPENDIX F**, will be delivered on the date of issue of the 2002 Series 2 Bonds. In the event certificated 2002 Series 2 Bonds are issued, the opinion will be printed on the reverse side of each 2002 Series 2 Bond.

As a condition to making a Loan, the State will require an opinion of counsel (which counsel need not be a nationally recognized bond counsel) to the effect that (subject to certain exceptions for bankruptcy, insolvency and similar laws affecting creditors’ rights or remedies and equitable principles), among other things, the Financial Assistance Agreement and the Municipal Obligation constitute legal, valid and binding obligations of the Municipality enforceable against the Municipality in accordance with their respective terms.

### **Absence of Litigation**

Upon delivery of the 2002 Series 2 Bonds, the State shall furnish a certificate of the Attorney General of the State, dated the date of delivery of the 2002 Series 2 Bonds, to the effect that there is no controversy or litigation of any nature pending or, to the best of the State’s knowledge, threatened, to prohibit, restrain or enjoin the issuance, sale, execution or delivery of the 2002 Series 2 Bonds, or in any way contesting or affecting the titles to their respective offices of any of the State officers involved in the issuance the 2002 Series 2 Bonds, or the validity or enforceability of the 2002 Series 2 Bonds or any of the proceedings taken with respect to the issuance and sale thereof or the application of moneys to the payment of the 2002 Series 2 Bonds. In addition, such certificate shall state that there is no controversy or litigation of any nature now pending or, to the best of the State’s knowledge, threatened by or against the State wherein an adverse judgment or ruling could have a material adverse impact on the power of the State to collect and enforce the collection of the Pledged Receipts or other revenues, receipts,

funds or moneys pledged for the payment of the 2002 Series 2 Bonds which has not been disclosed in this Official Statement.

Each Municipality entering into a Financial Assistance Agreement is required, as a condition of the Loan, to deliver a certificate to the effect that there is no controversy or litigation of any nature pending or, to its knowledge, threatened against the Municipality contesting or affecting the validity or enforceability of the Financial Assistance Agreement or the Municipal Obligation or the use of the proceeds of the Municipal Obligation. In addition, such certificate shall state that there is no controversy or litigation of any nature now pending or, to its knowledge, threatened by or against the Municipality wherein an adverse ruling could have a material adverse impact on the financial condition of the Municipality or adversely affect the power of the Municipality to levy, collect and enforce the levying or collection of taxes, the imposition of rates or charges, or the collection of any of the foregoing, as applicable, for the payment of its Municipal Obligation which has not been disclosed to the State.

## **TAX MATTERS**

### **Certain Requirements of Code**

The Internal Revenue Code of 1986, as amended (**Code**) establishes certain requirements which must be met subsequent to the issuance and delivery of the 2002 Series 2 Bonds in order that the interest on the 2002 Series 2 Bonds be and remain excluded from gross income pursuant to Section 103 of the Code. Noncompliance could cause interest on the 2002 Series 2 Bonds to be included in gross income of the owners thereof for federal income tax purposes retroactive to the date of issue, irrespective of the date on which such noncompliance occurs or is ascertained. The Tax Regulatory Agreement entered into by the State describes the application to be made of certain funds held under the General Resolution and sets forth certain representations, statements of intention, conditions and covenants relating to the use of proceeds of the 2002 Series 2 Bonds necessary for, or related to, compliance with the requirements of Section 103 and related provisions of the Code including the arbitrage limitations imposed with respect to the investment of 2002 Series 2 Bond proceeds pursuant to Section 148 of the Code. The State agrees generally that it will take such actions as may be necessary and within its reasonable control to ensure that the 2002 Series 2 Bonds will continue to be obligations described in Section 103(a) of the Code. The Financial Assistance Agreement for each Loan contains a provision that the Municipality will not take any action or fail to take any action, which action or failure to act would cause the Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code or cause the Bonds to be “advance refunding” bonds under Section 149 of the Code.

### **Opinion of Bond Counsel**

#### *Federal Taxes*

In the opinion of Bond Counsel, whose approving opinion is substantially in the form shown in **APPENDIX F**, under existing statutes and court decisions, interest on the 2002 Series 2 Bonds is not included in gross income for federal income tax purposes pursuant to Section 103 of the Code and such interest will not be treated as a preference item to be included in calculating alternative minimum taxable income under the Code with respect to individuals and corporations. As summarized in **“TAX MATTERS; Certain Additional Federal Tax Consequences”**, such interest, however, is to be taken into account in the computation of certain taxes that may be imposed with respect to corporations, including, without limitation, the alternative minimum tax and the foreign branch profits tax.

#### *State Taxes*

Interest on the 2002 Series 2 Bonds is subject to State of Wisconsin income and franchise taxes.

### *Basis of Federal Income Tax Opinion*

In rendering the foregoing opinion, Bond Counsel has relied upon and assumed compliance by the State and the Municipalities with the procedures and covenants set forth respectively in the Tax Regulatory Agreement entered into by the State and the Financial Assistance Agreement executed by each Municipality.

### **Certain Additional Federal Tax Consequences**

#### *General*

The following is a discussion of certain federal income tax matters under existing statutes. It is for general information only and does not purport to deal with all aspects of federal taxation that may be relevant to particular owners of the 2002 Series 2 Bonds. Prospective investors, particularly those who may be subject to special tax rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the 2002 Series 2 Bonds, as well as any tax consequences arising under the laws of any foreign state or other taxing jurisdiction.

#### *Alternative Minimum Tax*

The Code imposes an alternative minimum tax with respect to individuals and corporations on alternative minimum taxable income. Interest on the 2002 Series 2 Bonds is not treated as a preference item in calculating alternative minimum taxable income.

#### *Social Security and Railroad Retirement Payments*

The Code provides that interest on tax-exempt obligations is included in the calculation of modified adjusted gross income in determining whether a portion of Social Security or railroad retirement payments is to be included in taxable income of individuals.

#### *Branch Profits Tax*

The Code provides that interest on tax-exempt obligations is included in effectively connected earnings and profits for purposes of computing the branch profits tax on certain foreign corporations doing business in the United States.

#### *Borrowed Funds*

The Code provides that interest paid on borrowed funds to purchase or carry tax-exempt obligations during a tax year is not deductible. In addition, under rules used by the Internal Revenue Service for determining when borrowed funds are considered used for the purpose of purchasing or carrying particular assets, the purchase of obligations may be considered to have been made with borrowed funds even though the borrowed funds are not directly traceable to the purchase of such obligations.

#### *Financial Institutions*

The Code provides that commercial banks, thrift institutions and other financial institutions may not deduct their cost of carrying certain obligations (other than certain “qualified” obligations), effective for obligations acquired after August 7, 1986. The 2002 Series 2 Bonds are not “qualified” obligations for this purpose.

#### *Property and Casualty Companies*

The Code contains provisions relating to property and casualty companies whereunder the amount of certain cost deductions otherwise allowed is reduced (in certain cases below zero) by a specified percentage of, among other things, interest on tax-exempt obligations acquired after August 7, 1986.

### *S Corporations*

The Code imposes a tax on excess net passive income of certain S corporations that have subchapter C earnings and profits. Passive investments include interest on tax-exempt obligations.

### *Original Issue Premium*

Each of the 2002 Series 2 Bonds is being sold at an amount in excess of the amount payable on maturity. Such excess constitutes bond premium under Section 171 of the Code. Under Section 171 of the Code, amortizable bond premium on a Bond is determined on a constant yield basis (except to the extent regulations may provide otherwise) over the term of the Bond. No deduction from the income of an owner of a Bond is allowed with respect to the amount of amortizable bond premium. The basis of each Bond will be reduced by the amount of amortizable bond premium for a taxable year required to be taken into account by an owner.

## **CONTINUING DISCLOSURE**

The State has made an undertaking, for the benefit of the beneficial owners of the 2002 Series 2 Bonds, to provide an annual report presenting certain financial information and operating data about the State (**Annual Report**). By approximately December 27 of each year, the State will send the Annual Report to each nationally recognized municipal securities information repository (**NRMSIR**) and to any state information depository (**SID**). The State will also provide notices of occurrence of certain events specified in the undertaking to each NRMSIR, or the Municipal Securities Rulemaking Board (**MSRB**), and any SID. As of the date of this Official Statement, no SID has been established. [Part I of the 2001 Annual Report, which contains information on the undertaking, is included by reference as part of this Official Statement.](#)

Copies of the Annual Reports and notices may be obtained from:

State of Wisconsin Capital Finance Office  
Department of Administration  
101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
[capfin@doa.state.wi.us](mailto:capfin@doa.state.wi.us)

The undertaking also describes the consequences of any failure to provide the required information. The State must report the failure to the NRMSIRS, or the MSRB, and to any SID. In the last five years, there has been no failure to comply in any material respect with this or any similar undertaking.

## **FURTHER INFORMATION**

The State has covenanted to file with the Trustee, and to make available from DOA upon request, a copy of the audited financial statements for the Environmental Improvement Fund. The financial statements for the year ended June 30, 2001 are included by reference as part of **APPENDIX A**. Copies of the General Resolution, the Series Resolution, the Financial Assistance Agreements, and the Municipal Obligations are available for inspection during normal business hours at the offices of DOA. The State has not otherwise committed to update information in this Official Statement or to provide any other continuing disclosure concerning the Environmental Improvement Fund or the Clean Water Fund Program, except as provided in "**CONTINUING DISCLOSURE**".

This Official Statement is submitted only in connection with the sale of the 2002 Series 2 Bonds by the State and may not be reproduced or used in whole or in part for any other purpose, except with express permission.

Dated: July 31, 2002

**STATE OF WISCONSIN**

/s/ SCOTT MCCALLUM

Governor Scott McCallum, Chairperson  
State of Wisconsin Building Commission

/s/ GEORGE LIGHTBOURN

George Lightbourn, Secretary  
State of Wisconsin Department of Administration

/s/ ROBERT G. CRAMER

Robert G. Cramer, Secretary  
State of Wisconsin Building Commission

## APPENDIX A

### INFORMATION ABOUT THE CLEAN WATER FUND PROGRAM

This appendix includes information concerning the State of Wisconsin Clean Water Fund Program. [Part VI of the State of Wisconsin Continuing Disclosure Annual Report, dated December 19, 2001 \(2001 Annual Report\)](#) is included by reference as part of this APPENDIX A.

[Part VI to the 2001 Annual Report](#) contains certain general information on the Environmental Improvement Fund and the Clean Water Fund Program. This part also presents information on the following:

- Security and Source of Payment of the Bonds
- Pledged Revenues
- Loans
- Subsidy Fund
- Loan Credit Reserve Fund (including the Loan Credit Reserve Fund Schedule for each Rating Agency)
- Statutory Powers
- State financial participation
- Additional Bonds
- Municipalities
- General Resolution.

Included as APPENDIX A to [Part VI of the 2001 Annual Report](#) are the audited financial statements as of June 30, 2001 for the Environmental Improvement Fund, which includes the Clean Water Fund Program.

The 2001 Annual Report has been filed with each nationally recognized municipal securities information repository (NRMSIR). Copies of the 2001 Annual Report can be obtained from:

State of Wisconsin Capital Finance Office  
Department of Administration  
101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
(608) 266-2305  
[capfin@doa.state.wi.us](mailto:capfin@doa.state.wi.us)

As of the date of this Official Statement, Part VI of the 2001 Annual Report can also be found on the world wide web at:

[www.doa.state.wi.us/debf/capfin/01dis6.pdf](http://www.doa.state.wi.us/debf/capfin/01dis6.pdf)

After publication and filing of the 2001 Annual Report, certain changes or events have occurred that affect items discussed in the 2001 Annual Report. Listed below, by reference to particular sections of the 2001 Annual Report, are changes or additions to the discussion contained in those particular sections. Many of the following changes have not been filed with the NRMSIRS. However, the State has filed, and expects to continue to file, certain informational notices with

the NRMSIRS. These informational notices do not constitute listed material events under the State's Master Agreement on Continuing Disclosure.

**SECURITY AND SOURCE OF PAYMENT FOR BONDS; Loans (Page 178).** Add the following:

As of December 31, 2001, \$684 million from the Leveraged Loan Portfolio (including Bond proceeds and interest thereon) have been disbursed for Loans and \$529 million was the outstanding principal balance of these Loans.

On May 14, 2002, the State issued \$100,000,000 Clean Water Revenue Bonds, 2002 Series 1, of which substantially all of the proceeds were deposited into the Loan Fund.

**TABLE VI-2; State of Wisconsin Environmental Improvement Fund Outstanding Loans (Pages 180-184).** Replace the table with the following:

**State of Wisconsin Clean Water Fund Program  
Outstanding Loans  
December 31, 2001  
(Amounts in Thousands)**

Municipality	Financial Assistance Loan Amount (b)	Total Loan Amount Disbursed	Leveraged Balance	Direct, Drinking Water, and Proprietary Balance	Total Outstanding Balance (c)	Loan Amount Remaining to Fund (d)	Leveraged Loans Percent of Revenue Bond Payment (e)
<b>Leveraged Loans (a)</b>							
Milwaukee Met Sewer Dist	384,670	351,946	142,165	114,969	257,134	31,083	20.27%
Madison Met Sewer Dist	52,308	49,105	33,073	4,686	37,759	250	4.89%
Manitowoc, City	20,216	19,205	18,403		18,403	1,011	2.82%
Green Bay Met Sewer Dist	51,981	47,919	12,267	21,785	34,053	1,488	1.79%
Stevens Point, City	13,560	13,117	9,098		9,098		1.31%
Fort Atkinson, City	14,594	14,266	9,042		9,042		1.33%
Menomonie, City	8,732	8,573	7,478		7,478	91	1.21%
Waupaca, City	10,465	10,099	7,397	691	8,087		1.09%
Sussex, Village	11,029	10,605	6,741		6,741		0.96%
Marshall, Village	7,744	7,507	6,649		6,649		0.99%
Saukville, Village	11,332	6,802	6,321		6,321	4,506	0.98%
Sparta, City	15,726	12,041	6,086	1,997	8,084	3,003	0.87%
Green Lake SD	8,674	8,388	5,880		5,880		0.81%
Bloomer, City	6,694	6,690	5,872		5,872		0.87%
Jackson, Village	6,130	6,130	5,634		5,634		0.83%
Brodhead, City	6,549	6,261	5,540		5,540	56	0.82%
Stoughton, City	7,662	7,190	5,530	163	5,692	274	0.81%
Twin Lakes, Village	5,941	5,522	5,317		5,317	419	0.82%
South Milwaukee, City	6,413	6,245	5,296		5,296	168	0.79%
Hudson, City	7,242	6,895	5,286		5,286	342	0.78%
Brookfield, City	30,606	27,807	5,280	20,504	25,784	2,131	0.81%
Racine, City	19,573	18,912	5,123	11,122	16,245		0.75%
Oconomowoc, City	5,449	5,414	4,740		4,740		0.70%
Salem, Town	6,359	5,699	4,624		4,624	541	0.67%
Dodgeville, City	4,995	4,745	4,538		4,538	250	0.67%
Norway SD #1	6,228	5,086	4,241		4,241	1,134	0.64%
West Salem, Village	4,990	4,634	4,224		4,224		0.61%
Chippewa Falls, City	7,593	7,252	4,176	2,174	6,350		0.62%
Richland Center, City	6,998	5,277	3,814		3,814	1,473	0.57%
De Pere, City	5,648	4,784	3,784		3,784	634	0.58%
Black Creek, Village	4,332	4,332	3,627		3,627		0.54%
Antigo, City	4,317	4,273	3,509		3,509	30	0.52%
Rhineland, City	5,136	5,123	3,456		3,456		0.50%
Lodi, City	4,050	3,907	3,274		3,274		0.49%
Chilton, City	3,418	3,350	3,212		3,212	68	0.47%
Edgerton, City	4,186	3,540	3,150		3,150		0.46%
Plover, Village	6,517	6,449	3,079	3,114	6,193	68	0.46%
Marshfield, City	24,170	22,695	2,892	18,576	21,469	1,284	0.42%
Bristol, Town	4,211	3,995	2,805		2,805		0.41%
New Richmond, City	3,320	3,202	2,791		2,791		0.41%
Sheboygan, City	7,626	7,626	2,737	3,468	6,205		0.41%
Neillsville, City	3,238	3,210	2,685		2,685		0.40%
Somerset, Village	2,981	2,724	2,640		2,640	257	0.41%
Lake Delton, Village	2,825	2,628	2,628		2,628	198	0.40%
Mauston, City	2,905	2,691	2,612		2,612	214	0.45%
Allouez, Village	3,072	3,062	2,565		2,565		0.38%
Merrill, City	4,044	4,033	2,410		2,410		0.34%

**State of Wisconsin Clean Water Fund Program  
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Municipality	Financial Assistance Loan Amount ( b )	Total Loan Amount Disbursed	Leveraged Balance	Direct, Drinking Water, and Proprietary Balance	Total Outstanding Balance ( c )	Loan Amount Remaining to Fund ( d )	Leveraged Loans Percent of Revenue Bond Payment ( e )
Wautoma, City	6,848	6,847	2,400	3,039	5,439		0.31%
North Fond du Lac, Village	2,592	2,590	2,388		2,388		0.36%
Tomahawk, City	3,026	2,864	2,356		2,356		0.34%
New Glarus, Village	3,503	3,434	2,354		2,354		0.34%
Ashland, City	14,010	13,476	2,308	6,649	8,957	376	0.34%
Black Wolf SD #1	4,327	4,065	2,284		2,284		0.30%
Reedsville, Village	2,768	2,755	2,239		2,239		0.33%
Freedom SD #1	2,748	2,645	2,214		2,214		0.32%
Cuba City, City	2,562	2,220	2,164		2,164	342	0.33%
Adams, City	2,464	2,233	2,112		2,112	177	0.32%
Silver Lake, Village	2,318	2,158	2,094		2,094	160	0.33%
Shorewood, Village	2,512	2,298	2,027		2,027		0.30%
Belleville, Village	2,563	2,413	2,016		2,016		0.30%
Colby, City	2,837	2,647	1,987		1,987		0.29%
Amery, City	3,060	2,875	1,932	427	2,358	181	0.28%
Weyauwega, City	3,285	3,108	1,913		1,913		0.28%
Janesville, City	3,473	2,708	1,907	430	2,337	670	0.28%
Kenosha, City	33,144	29,359	1,802	19,116	20,918	111	0.26%
Beloit, City	2,927	2,610	1,698		1,698		0.22%
Poynette, Village	2,288	2,112	1,674		1,674		0.24%
Chain O'Lakes SD #1	2,082	2,063	1,672		1,672		0.26%
Luxemburg, Village	2,053	1,896	1,666		1,666		0.24%
Union Grove, Village	2,192	2,166	1,647		1,647		0.25%
Baraboo, City	2,382	2,276	1,645		1,645		0.23%
Monticello, Village	2,345	2,319	1,583		1,583		0.20%
Pewaukee, Village	8,191	7,695	1,576	5,298	6,873	496	0.23%
Fremont, Village	1,867	1,815	1,521		1,521		0.23%
Bangor, Village	1,587	1,555	1,500		1,500	32	0.23%
Footville, Village	1,645	1,404	1,382		1,382	241	0.21%
Mount Horeb, Village	3,436	3,338	1,312	701	2,014		0.18%
Whitewater, City	1,564	1,564	1,309		1,309		0.19%
Jefferson, City	2,779	1,896	1,273	577	1,850	883	0.20%
Rib Mountain MSD	1,977	1,296	1,265		1,265	680	0.19%
Wisconsin Dells - Lake Delton SC	1,935	1,892	1,262		1,262		0.18%
Wrightstown, Village	1,427	1,427	1,257		1,257		0.19%
Trempealeau, Village	1,559	1,544	1,256		1,256		0.19%
Lake Nebagamon, Village	1,539	1,456	1,236		1,236		0.19%
Crandon, City	1,537	1,454	1,214		1,214		0.18%
Newburg, Village	1,549	1,430	1,213		1,213		0.18%
Lancaster, City	1,688	1,601	1,206		1,206		0.18%
Iron Ridge, Village	1,441	1,254	1,206		1,206	187	0.19%
Menasha, Town	1,659	1,642	1,187		1,187		0.17%
Two Rivers, City	1,608	1,379	1,170		1,170	100	0.18%
Manawa, City	1,408	1,391	1,108		1,108		0.16%
Dane, Village	1,228	1,228	1,099		1,099		0.16%
Potosi/Tennyson SC	1,543	1,543	1,087		1,087		0.15%
Valders, Village	1,538	1,538	1,057	93	1,149		0.15%
Fond du Lac, City	2,022	1,732	1,050		1,050		0.15%
Tomah, City	15,430	14,492	1,049	12,222	13,271	905	0.15%
Black River Falls, City	1,894	1,767	998		998		0.13%
Mount Calvary, Village	1,430	1,430	994		994		0.12%
Monroe, City	1,580	1,527	982		982		0.14%
Columbus, City	1,235	1,235	977		977		0.14%
Mosinee, City	1,383	1,297	971		971		0.14%
Mayville, City	1,006	1,006	952		952		0.14%
Bay City, Village	1,224	1,200	948		948	24	0.14%
Boscobel, City	1,337	1,182	938		938	105	0.14%
Watertown, City	1,141	1,101	932		932		0.14%
New Holstein, City	1,100	961	927		927	139	0.14%
Viroqua, City	1,353	1,314	922		922		0.13%
Blue Mounds, Village	1,152	1,064	890		890		0.13%
Hewitt, Village	1,467	1,298	884		884		0.12%
Fontana, Village	2,725	2,573	872	1,462	2,335	78	0.13%
Brillion, City	1,064	882	850		850	182	0.13%
Lake Mills, City	1,246	828	828		828	418	0.13%
River Falls, City	1,009	1,009	803		803		0.12%
Argyle, Village	1,467	1,380	800		800		0.11%
Cross Plains, Village	896	887	791		791		0.12%
Wolf TPC	12,847	12,105	785	10,432	11,217	742	0.11%

**State of Wisconsin Clean Water Fund Program  
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Municipality	Financial Assistance Loan Amount ( b )	Total Loan Amount Disbursed	Leveraged Balance	Direct, Drinking Water, and Proprietary Balance	Total Outstanding Balance <sup>( c )</sup>	Loan Amount Remaining to Fund ( d )	Leveraged Loans Percent of Revenue Bond Payment <sup>( e )</sup>
Brokaw, Village	969	908	776		776	54	0.11%
Wrightstown SD #1	1,081	1,036	775		775		0.11%
Kewaunee, City	1,017	1,017	759		759		0.11%
Spring Green, Village	950	920	743		743		0.11%
Cumberland, City	928	808	740		740		0.11%
Rockland, Village	967	867	736		736		0.11%
Galesville, City	1,143	1,111	714		714		0.10%
Muscoda, Village	898	777	712		712		0.10%
Highland, Village	825	784	666		666		0.10%
Silver Lake SD	1,063	1,063	646		646		0.08%
Brazeau SD #1	793	758	640		640		0.09%
Redgranite, Village	997	997	626		626		0.08%
Mercer SD #1	787	787	622		622		0.10%
Montfort, Village	779	756	600		600		0.09%
Cudahy, City	886	839	577		577		0.08%
Rosholt, Village	662	649	570		570		0.08%
Iron River SD #1	717	710	555		555		0.08%
Shullsburg, City	687	626	553		553		0.08%
Plymouth, City	5,848	5,369	540	3,583	4,123	201	0.08%
Knapp, Village	669	616	538		538	53	0.08%
Neenah SD #2	1,057	1,057	537		537		0.06%
Abbotsford, City	722	660	534		534		0.08%
Beaver Dam, City	819	798	515		515		0.07%
Sextonville SD	589	564	481		481		0.07%
Brownsville, Village	588	534	473		473		0.07%
Laona SD #1	746	746	456		456		0.06%
Chetek, City	528	512	452		452		0.07%
Silver Lake SD	722	722	440		440		0.05%
New Lisbon, City	1,053	777	407	142	549		0.06%
Prescott, City	5,349	4,956	392	3,334	3,726		0.06%
Almond, Village	530	504	362		362		0.05%
Prentice, Village	544	447	359		359		0.05%
Kohler, Village	401	367	353		353		0.05%
Westby, City	417	395	348		348		0.05%
North Freedom, Village	498	473	343		343		0.05%
Pulaski, Village	483	483	337		337		0.05%
Campbellsport, Village	405	359	334		334		0.05%
Slinger, Village	480	480	331		331		0.05%
Mattoon, Village	628	586	320	207	527		0.05%
Belmont, Village	458	416	318		318		0.05%
Cottage Grove, Village	506	360	317		317		0.05%
Linden, Village	389	363	316		316	14	0.05%
Iowa County	486	486	315		315		0.05%
Sunset Point SD	686	655	311		311		0.05%
Random Lake, Village	464	441	309		309		0.04%
Ellsworth, Village	373	373	297		297		0.04%
Goodman SD #1	1,074	1,074	294	585	879		0.03%
Cassville, Village	442	401	275		275		0.04%
Wycocena, Village	389	298	275		275		0.04%
Coleman, Village	507	449	271		271		0.04%
Walworth, Village	332	305	268		268		0.04%
Prairie du Chien, City	4,106	4,050	265	2,644	2,909		0.04%
Pepin, Village	363	281	240		240		0.04%
Montello, City	260	256	238		238		0.04%
Osceola, Village	298	298	238		238		0.03%
Hustisford, Village	446	438	228	42	270		0.03%
Potosi, Village	291	260	222		222	23	0.03%
Baldwin, Village	262	262	210		210		0.03%
Shawano, City	252	225	207		207		0.03%
Grand Chute - Menasha West SC	11,835	11,227	189	7,828	8,017		0.03%
Blue River, Village	281	272	181		181		0.03%
Plum City, Village	249	249	181		181		0.03%
Prairie du Sac, Village	205	183	155		155		0.02%
Gays Mills, Village	180	173	146		146		0.02%
Little Elkhart Lake Rehab District	217	217	120		120		0.01%
Hancock, Village	151	120	116		116	31	0.02%
Webster, Village	204	194	115		115		0.02%
Hillsboro, City	160	129	110		110		0.02%
Spring Valley, Village	120	120	96		96		0.01%

**State of Wisconsin Clean Water Fund Program  
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Municipality	Financial Assistance Loan Amount ( b )	Total Loan Amount Disbursed	Leveraged Balance	Direct, Drinking Water, and Proprietary Balance	Total Outstanding Balance ( c )	Loan Amount Remaining to Fund ( d )	Leveraged Loans Percent of Revenue Bond Payment ( e )
Roberts, Village	81	81	66		66		0.01%
Bowler, Village	115	107	60		60		0.01%
<b>Subtotal</b>	<b>1,126,873</b>	<b>1,042,288</b>	<b>529,411</b>	<b>282,060</b>	<b>811,471</b>	<b>58,580</b>	<b>77.43%</b>

**Direct, Proprietary, and Drinking Water**

Aurora SD #1	15	15		7	7		
Burlington, City	18,488	17,855		10,551	10,551		
Eagle River, City	3,563	3,401		2,648	2,648		
Nekoosa, City	2,435	2,406		1,916	1,916		
Oshkosh, City	53,985	52,573		46,529	46,529	542	
Waukesha, City	42,072	40,531		26,089	26,089		
Lisbon SD #1	2,849	2,706		1,550	1,550		
Oneida Tribe of Indians	1,210	1,210		637	637		
Cleveland, Village	3,610	3,452		2,730	2,730		
Denmark, Village	2,241	2,223		1,526	1,526		
Hilbert, Village	2,502	2,496		1,974	1,974		
Oregon, Village	6,785	6,641		4,574	4,574		
Walworth County Met Sewer Dist	19,994	19,088		14,217	14,217		
Bayshore Sanitary District	947	899					
Blue Spring Lake Management District	380	361					
Bohners Lake SD #1	8,007	7,857		4,968	4,968		
Brookfield SD #4	5,750	5,608		5,105	5,105		
Brule SD	367	299		278	278		
Butte des Morts Consolidated SD #1	2,144	2,144		740	740		
Calumet SD #1	505	505		347	347		
Caroline SD	83	83		46	46		
Christmas Mountain SD	1,659	1,606		1,548	1,548	8	
Algoma, City	5,547	5,432		3,305	3,305		
Appleton, City	16,474	13,989		9,213	9,213		
Bayfield, City	276	212		212	212	64	
Darlington, City	3,650	3,650		3,650	3,650		
Hartford, City	13,168	12,510		10,922	10,922	571	
Juneau, City	271	237		201	201		
Kiel, City	2,470	2,470		2,105	2,105		
Milwaukee, City	19,358	17,559		16,093	16,093	1,799	
Niagara, City	181	181		102	102		
Oconto, City	3,844	3,725		2,786	2,786		
Oconto Falls, City	528	395		395	395	133	
Osseo, City	1,575	1,122		1,122	1,122	453	
Park Falls, City	1,469	1,469		1,410	1,410		
Pewaukee, City	8,049	7,831		7,126	7,126	218	
Phillips, City	2,233	1,801		1,801	1,801	432	
Port Washington, City	1,666	1,666		1,646	1,646		
Portage, City	4,341	4,272		3,928	3,928		
Wisconsin Rapids, City	11,670	11,348		7,101	7,101		
Cloverleaf Lakes SD #1	1,022	977		600	600		
Consolidated S.D. #1	155	155		88	88		
Crestview SD	290	216		216	216	74	
Cushing SD #1	116	116		209	209		
Dyckesville SD	3,127	3,127		904	904		
Edgewood-Shangri La SD	1,011	996		759	759		
Elcho SD #1	1,418	1,418		1,279	1,279		
Germantown SD	34	34		19	19		
Gordon SD #1	395	395		228	228		
Green Valley SD #1	188	188		146	146		
Hatfield SD #1	1,135	1,135		733	733		
Holland SD #1	1,380	1,226		1,226	1,226	154	
Hub-Rock SD #1	494	494		417	417		
Island View SD	2,764	2,480		1,928	1,928		
Ithaca SD #1	412	412		345	345		
Kelly Lake SD #1	2,439	2,318		2,243	2,243	121	
Lake Como Beach SD	4,459	4,459		3,790	3,790		
Lake Tomahawk SD #1	1,317	1,313		1,225	1,225		
Little Green Lake Prot & Rehab Dist	1,898	1,563		1,563	1,563	335	
Little Suamico SD #1	1,349	1,290		789	789		
Morrison Sanitary District #1	294	294					
Morrisonville SD #1	278	278		238	238		

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Ogema SD #1	190	181		119	119		
Omro SD #1	992	992		739	739		
Onion River SC/Adell	721	721		402	402		
Onion River SC/Hingham	227	227		131	131		
Orihula SD	2,522	2,485		1,730	1,730		
Packwaukee SD #1	242	242		219	219		
Pell Lake SD #1	5,829	5,829		5,233	5,233		
Pensaukee SD #1	1,279	1,279		1,010	1,010		
Pleasant Springs SD #1	1,029	934		726	726		
Rockland SD #1	222	222		112	112		
Roxbury SD #1	940	914		843	843		
Royal Scot Sanitary District	510	510					
Summit SD No. 1	7,832	7,440		7,411	7,411	392	
Hartford, Town of	742	742					
Oconomowoc, Town	6,819	5,936		5,800	5,800	883	
Washington, Town of	60	60					
Valley Ridge Clean Water Comm.	749	749		433	433		
Adell, Village	566	566		315	315		
Albany, Village	536	393		363	363	143	
Arena, Village	1,486	1,433		1,375	1,375	52	
Arlington, Village	1,662	1,608		1,495	1,495		
Avoca, Village	359	344		273	273		
Bagley, Village	229	218		201	201		
Bear Creek, Village	432	387		312	312		
Belgium, Village	3,855	2,672		2,672	2,672	1,183	
Benton, Village	1,100	1,100		1,100	1,100		
Black Earth, Village	4,278	4,090		3,926	3,926	189	
Boaz, Village	106	106		58	58		
Clinton, Village	4,962	4,713		4,713	4,713	249	
Cochrane, Village	454	441		423	423		
Crivitz, Village	1,725	1,725		1,071	1,071		
Eastman, Village	323	323		179	179		
Egg Harbor, Village	508	504		446	446		
Elk Mound, Village	419	418		266	266		
Fairchild, Village	575	575		504	504		
Forestville, Village	585	552		510	510		
Haugen, Village	285	285		273	273		
Ironton, Village	107	107		46	46		
Lannon, Village	3,824	3,326		2,337	2,337		
Lomira, Village	1,932	1,784		1,338	1,338		
Lyndon Station, Village	615	583		541	541		
Marathon City, Village	1,890	1,853		1,722	1,722		
Mazomanie, Village	4,753	4,513		4,332	4,332	240	
Menomonee Falls, Village	887	869		791	791		
Milltown, Village	337	302		259	259		
Mukwonago, Village	1,886	1,564		1,491	1,491	322	
Nashotah, Village	286	54		54	54	232	
Necedah, Village	2,937	2,303		2,303	2,303	634	
Nelson, Village	640	640		480	480		
North Hudson, Village	641	620		53	53		
Oakdale, Village	45	45		23	23		
Oliver, Village	588	588		485	485		
Readstown, Village	178	178		171	171		
Sharon, Village	635	501		501	501	134	
Sherwood, Village	1,500	1,500		1,322	1,322		
South Wayne, Village	1,388	1,266		1,022	1,022		
Stetsonville, Village	1,141	1,141		1,099	1,099		
Union Center, Village	299	299		299	299		
Wausaukee, Village	1,662	1,662		1,111	1,111		
Wauzeka, Village	128	107		86	86		
Wheeler, Village of	37	37					
Whitelaw, Village	1,494	1,303		1,303	1,303	192	
Williams Bay, Village	885	836		744	744		
Winneconne, Village	1,669	1,517		1,372	1,372		

**State of Wisconsin Clean Water Fund Program  
Outstanding Loans  
December 31, 2001  
(Amounts in Thousands)**

Municipality	Financial Assistance Loan Amount ( b )	Total Loan Amount Disbursed	Leveraged Balance	Direct, Drinking Water, and Proprietary Balance	Total Outstanding Balance <sup>(c)</sup>	Loan Amount Remaining to Fund ( d )	Leveraged Loans Percent of Revenue Bond Payment <sup>(e)</sup>
Westboro SD #1	51	51		40	40		
Winneconne SD #3	2,079	1,985		1,341	1,341		
<b>Subtotal</b>	392,195	372,160		292,089	292,089	9,748	-
<b>Total</b>	1,519,068	1,414,447	529,411	574,149	1,103,560	68,328	77.43%

- (a) Municipalities that have received Financial Assistance Agreements that are funded with both Leveraged Loans and Direct or Proprietary Loans are included in their entirety within the group of Leveraged Loans.
- (b) The amount of financial assistance depicts only loans. Grants awarded in the aggregate amount of \$97 million are not included.
- (c) The principal balance may be less than the total amount disbursed due to repayment of loans.
- (d) "Loan Amount Remaining to Fund" is the "Financial Assistance Loan Amount" less "Total Loan Amount Disbursed", except for Loans that have been closed-out or paid-off, in which case the "Loan Amount Remaining to Fund" is zero.
- (e) Total repayments of outstanding Leveraged Loans (excluding amounts payable after the retirement of the previously issued and Outstanding Bonds) are shown as a percentage of total debt service on the 1991 Series 1 Bonds, 1993 Series 1 and 2 Bonds, 1995 Series 1 Bonds, 1997 Series 1 Bonds, 1998 Series 1 Bonds, 1998 Series 2 Bonds, 1999 Series 1 Bonds, and 2001 Series 1 Bonds, less those Bonds that are defeased. Loans with amortization periods of shorter duration than the Bonds will reflect a lower comparative percentage of the Bonds' debt service. Other revenues expected to be available for payment of the Bonds consist of Subsidy Fund transfers and repayments on Loans to be originated in the future from the remaining undisbursed 2001 Series 1 Bond proceeds.

As used in the above update to Table VI-2, "SD" refers to a sanitary district, "SC" to sewerage commission, "MSD" to a metropolitan sewerage district, "TPC" to a treatment plant commission, "RD" to a rehabilitation district, "CWC" to a clean water commission "WPCC" to a water pollution control center, and "MD" to a management district. Due to rounding, rows and columns may not add to the totals shown.

**SECURITY AND SOURCE OF PAYMENT FOR BONDS; Subsidy Fund (Page 186).** Add the following:

As of June 30, 2002, the Environmental Improvement Fund had purchased \$137 million of State general obligation bonds that were deposited into the Subsidy Fund, and the amortized balance as of this date was \$108 million.

**SECURITY AND SOURCE OF PAYMENT FOR BONDS; Loan Credit Reserve Fund (Page 187).** Add the following:

As of June 30, 2002, the Loan Credit Reserve Fund balance was approximately \$73 million. This amount exceeded the Loan Credit Reserve Fund Requirement as of that date, which was \$59 million.

As of June 30, 2002, the Loan Credit Reserve Fund continues to be invested as follows:

- \$22 million were invested in an investment agreement with AIG Matched Funding Corp. (AIGMFC) with the payment obligations of AIGMFC guaranteed by American International Group, Inc., which policy guarantees only payment to the Trustee of the amounts due under the agreement and does not guarantee or otherwise provide for payment of amounts due in the event of non-payment by the State.

- \$6 million were invested in an investment agreement with MBIA Investment Management Corp. (**IMC**) with the payment obligations of IMC guaranteed by the MBIA Insurance Corporation, which policy guarantees only payment to the Trustee of the amounts due under the agreement and does not guarantee or otherwise provide for payment of amounts due in the event of non-payment by the State.
- \$8 million were invested in a collateralized investment repurchase agreement with Bayerische Landesbank Girozentrale (**Bayerische**), with the collateral held by Norwest Bank Minnesota, National Association as custodian.
- \$21 million were invested in direct obligations of the United States under two forward delivery agreements with First Union National Bank of North Carolina (**First Union**).
- \$2 million were invested in a forward delivery agreement with Westduetche Landesbank Girozentrale (**West LB**).
- \$14 million were invested in a pool managed by the State of Wisconsin Investment Board (**SWIB**)

## **APPENDIX B**

### **INFORMATION ABOUT THE MILWAUKEE METROPOLITAN SEWERAGE DISTRICT**

This appendix includes information concerning the Milwaukee Metropolitan Sewerage District (**MMSD**). The MMSD Comprehensive Annual Financial Report for the year ended December 31, 2001 (**MMSD CAFR**) is included by reference as part of this APPENDIX B. The MMSD CAFR has been filed with each nationally recognized municipal securities information repository (**NRMSIR**) and should be consulted only with respect to MMSD. No representation is made as to the accuracy or completeness of the information included in the MMSD CAFR, or that there has been no material change since its date.

Copies of the MMSD CAFR can be obtained from:

Mark T. Kaminski, Acting Controller  
Milwaukee Metropolitan Sewerage District  
260 West Seeboth Street  
Milwaukee, Wisconsin 53204-1446  
(414) 225-2050  
[tbragstad@mmsd.com](mailto:tbragstad@mmsd.com)

## APPENDIX C

### INFORMATION ABOUT THE STATE

This appendix includes information concerning the State of Wisconsin (**State**). [Part II of the State of Wisconsin Continuing Disclosure Annual Report, dated December 19, 2001 \(2001 Annual Report\)](#) is included by reference as part of this APPENDIX C. This appendix includes the current status of the State's 2001-03 biennial budget and a correction to actual 2000-01 fiscal year revenues and expenditures presented in Tables II-11 and II-12 of the 2001 Annual Report.

[Part II to the 2001 Annual Report](#) contains general information about the State. More specifically, that part presents information on the following matters:

- State's operations and financial procedures
- State's accounting and financial reporting
- Organization of, and services provided by, the State
- Results of fiscal year 2000-01
- State budget
- Obligations of the State
- State Investment Board
- Statistical information about the State's population, income, and employment

Included as APPENDIX A to [Part II of the 2001 Annual Report](#) are the audited general purpose financial statements for the fiscal year ending June 30, 2001, prepared in conformity with generally accepted accounting principles (**GAAP**) for governments as prescribed by the Government Accounting Standards Board, and the State Auditor's report.

The 2001 Annual Report has been filed with each nationally recognized municipal securities information repository (**NRMSIR**). Copies of the 2001 Annual Report are available from the Capital Finance Office web site and may also be obtained from:

State of Wisconsin Capital Finance Office  
Department of Administration  
101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
(608) 266-2305  
[capfin@doa.state.wi.us](mailto:capfin@doa.state.wi.us)

As of the date of this Official Statement, Part II of the 2001 Annual Report is available from the Capital Finance Office web site at the following address:

[www.doa.state.wi.us/debf/capfin/01dis2.pdf](http://www.doa.state.wi.us/debf/capfin/01dis2.pdf)

After publication and filing of the 2001 Annual Report, certain changes or events have occurred that affect items discussed in the 2001 Annual Report. Listed below, by reference to particular sections of the 2001 Annual Report, are changes or additions to the discussion contained in those particular sections. Many of the following changes have not been filed with the NRMSIRs. However, the State has filed, and expects to continue to file, certain informational notices with the NRMSIRs. These informational notices do not constitute listed material events under the State's Master Agreement on Continuing Disclosure.

**State Budget; Budget for 2001-03; Current Budget Status (Part II–Page 26).** Update with the following:

*Revised Revenue Estimates – January 16, 2002*

On January 16, 2002, the Legislative Fiscal Bureau provided revised estimates of general-fund revenues and gross ending balances for the 2001-02 and 2002-03 fiscal years, taking into account economic forecasts and actual tax collections and expenditures. The memorandum from the Legislative Fiscal Bureau that contains these revised revenues appears on **pages C-3 to C-13** of this Official Statement. The revised estimates show the following differences from estimates used in the 2001-03 biennial budget:

- 2001-02 general-fund tax revenues are now estimated to be \$443 million lower at \$10.218 billion.
- 2002-03 general-fund tax revenues are now estimated to be \$596 million lower at \$10.535 billion.
- 2001-03 departmental revenues (non-tax receipts) are now estimated to be \$10 million lower.
- 2001-03 net expenditures are now estimated to be \$25 million lower.

As a result of these revisions, the estimated gross balance for June 30, 2002 (before taking into account the statutory reserve) is estimated to be negative \$126 million, which is \$401 million less than the amount in the 2001-02 budget. The estimated gross balance for June 30, 2003 (before taking into account the statutory reserve) is estimated to be negative \$975 million, which is \$1.015 billion less than the amount in the 2002-03 budget.

**State Budget (Part II–Pages 25-28).** Add the following new section:

**Budget Reform Bill for 2001-03**

As required by law, on January 22, 2002 the Governor presented to the Legislature a budget reform bill for the 2001-03 biennium. On July 26, 2002, the Governor signed into law in part, and vetoed in part, the budget reform bill that was previously approved by both the Assembly and the Senate. A two-thirds vote in each house is required to override any veto.

Detailed information about the budget reform bill signed into law by the Governor is not yet available. A copy of the approved budget reform bill, which incorporates vetoes made by the Governor, along with the Governor's veto message can be obtained from:

State of Wisconsin Capital Finance Office  
Department of Administration  
101 East Wilson Street, FLR 10  
P.O. Box 7864  
Madison, WI 53707-7864  
(608) 266-2305  
capfin@doa.state.wi.us

# Legislative Fiscal Bureau

Robert Wm. Lang, Director

One East Main, Suite 301 • Madison, WI 53703  
Telephone: (608) 266-3847 • Fax: (608) 267-6873



*State of Wisconsin*

January 16, 2002

Representative John Gard, Assembly Chair  
Senator Brian Burke, Senate Chair  
Joint Committee on Finance  
State Capitol  
Madison, WI 53702

Dear Representative Gard and Senator Burke:

This office has now completed its review of the status of the state's general fund for the remainder of the 2001-03 biennium. Our analysis includes an examination of economic forecasts and tax collection and expenditure data for the first six months of the current fiscal year.

Based upon our review, we now project the closing, gross general fund balance at the end of the biennium to be -\$974.5 million. This is \$1,024.3 million below the level (\$49.8 million) that was indicated upon enactment of the state's 2001-03 biennial budget (2001 Act 16).

The \$1,024.3 million is the result of decreased estimated tax collections of \$1,039.2 million, a decrease of \$9.7 million in departmental revenues and an estimated decrease in net expenditures (sum sufficient appropriations and lapses) of \$24.6 million.

In addition to the projected gross general fund deficit of -\$974.5 million, provisions of Act 16, as partially vetoed, require that the state maintain a statutory balance of \$142.8 million. Thus, to address the projected deficit and maintain the required statutory balance, the general fund will need to be improved by \$1,117.3 million.

The following table reflects the estimated general fund condition statement which incorporates our revenue and expenditure projections.

**TABLE 1****2001-03 General Fund Condition Statement**

	<u>2001-02</u>	<u>2002-03</u>
<b>Revenues</b>		
Opening Balance, July 1	\$207,508,000	-\$125,867,400
Estimated Taxes	10,218,200,000	10,534,700,000
Departmental Revenues		
Tobacco Settlement	155,526,000	157,602,800
Tobacco Securitization	450,000,000	0
Other	<u>218,904,900</u>	<u>205,452,800</u>
Total Available	\$11,250,138,900	\$10,771,888,200
 <b>Appropriations, Transfers and Reserves</b>		
Gross Appropriations	\$11,534,187,200	\$11,809,293,000**
Sum Sufficient Reestimates	17,290,300	10,485,900
Compensation Reserves	27,900,000	82,500,000
Transfer to Tobacco Control Fund	6,032,300	15,345,100
Less Estimated Lapses	<u>-209,403,500</u>	<u>-171,230,800</u>
Net Appropriations	\$11,376,006,300	\$11,746,393,200
 <b>Balances</b>		
Gross Balance	-\$125,867,400	-\$974,505,000
Less Required Statutory Balance*	<u>-138,952,500</u>	<u>-142,827,300</u>
Net Balance, June 30	-\$264,819,900	-\$1,117,332,300

\*The statutes do not specify a required balance for 2001-02. The \$138.9 million figure shown for 2001-02 is 1.2% of gross appropriations and compensation reserves. Although not required by statute, the 1.2% calculation was used in condition statements during 2001-03 budget deliberations. 2001 Act 16 requires a balance of 1.2% of gross appropriations and compensation reserves for 2002-03.

\*\*Assumes that the \$115 million of general school aid that would have been paid in 2003-04 under Enrolled SB 55 (the 2001-03 budget adopted by the Legislature) will be paid in 2002-03 because of a veto of the \$115 million payment delay.

## General Fund Taxes

The following section provides information on general fund tax revenues for the 2001-03 biennium, including a discussion of the national economic forecast for 2001 through 2003 and general fund tax revenue projections for 2001-02 and 2002-03.

**National Economic Forecast.** This office first prepared revenue estimates for the 2001-03 biennium in January, 2001, based on the January, 2001, forecast of the economy prepared by Standard & Poor's Data Resources, Inc. (DRI). At that time, no recession was forecast. Positive economic growth was expected to continue in 2001, although at a lower rate than in recent years, followed by a rebound in growth in 2002 and 2003. It was believed that the primary risk to the forecast was that corporate earnings would continue to be depressed by high energy prices, deteriorating global competitiveness and reduced sales, in which case a bear market, lower household wealth and reduced consumer spending could lead to a recession in 2001. DRI placed the probability of this sequence of events at 40%.

In May, 2001, this office revised its 2001-03 tax collections estimates downward by 2.2%. The revision was based on 2000-01 general fund tax collections through April, 2001, and on revised national economic forecasts that were less favorable than those at the start of the year. The May, 2001, U.S. economic forecast prepared by DRI-WEFA (a subsidiary of Global Insight, Inc. that was formed by integrating DRI and Wharton Econometric Forecasting Associates) reported growth in nominal gross domestic product (GDP) in 2000 of 7.1% and projected increases of 4.4% in 2001, 4.5% in 2002 and 5.8% in 2003. The May forecast was for lower growth rates for each year, as compared to the January, 2001, forecast. Other indicators (including real GDP, personal income, consumption and corporate profits) were also generally lower in the May forecast, while unemployment and inflation were generally higher. As in the January, 2001, forecast, DRI assigned a 40% probability that a recession would occur in 2001.

By July, 2001, the forecasts for growth during 2001 were again being revised downward. That trend accelerated in the aftermath of the terrorist attacks on September 11. On November 26, 2001, the National Bureau of Economic Research (NBER), a non-profit research organization that tracks dates of business cycles, officially declared that the expansion was over and that the economy was in a recession. NBER placed the start of the recession in March, 2001. The debate over whether or not there would be a recession was replaced with the question of how long and severe the downturn would be.

The January, 2002, forecast by DRI-WEFA anticipates that the first quarter of 2002 will see the bottom of the recession, with gradually accelerating growth during the rest of the year, followed by relatively strong growth in 2003. However, as compared to the May forecast, economic activity is expected to be significantly weaker throughout the forecast period, especially in 2002. Growth in nominal GDP is expected to be 3.3% in 2001, 1.9% in 2002 and 6.0% in 2003 (as compared to the May figures of 4.4% in 2001, 4.5% in 2002 and 5.8% in 2003). Growth in real GDP is projected at 1.0% in 2001, 0.6% in 2002 and 3.7% in 2003, in contrast to the May, 2001, forecast of 2.0%, 2.4% and 4.0% growth for the same periods, respectively.

Under the current forecast, personal income is projected to grow at rates of 4.8% in 2001, 2.2% in 2002 and 5.2% in 2003. The estimate for 2001 is slightly higher (0.2%) than the May forecast. However, growth for the next two years is lower than the May forecast, by 2.2% in 2002 and by 0.5% in 2003. The low personal income growth in 2002 reflects the significant job losses that have already occurred as well as anticipated future layoffs. However, there are signs that the worst of the job losses may be nearing an end. The average workweek increased in December, and initial claims of unemployment have been trending downward. It is anticipated that employment will stop falling in early 2002 and then slowly recover during the rest of this year and into the next. This improvement is reflected in the personal income growth rate projected in 2003, which exceeds the projected rate in 2002 by 3.0%.

The January forecast assumes growth in personal consumption expenditures of 4.8% in 2001, 2.3% in 2002 and 6.1% in 2003. These growth rates are lower than the May forecast by 0.5% in 2001 and 2.6% in 2002, but exceed the May forecast for 2003 by 0.4%. Following a slow holiday season for retailers, DRI-WEFA expects consumer demand to remain sluggish going into 2002. On the positive side, taxes have been cut, energy prices are down and interest costs are lower, raising household disposable income. However, unemployment has risen and layoffs are continuing. Mortgage interest rates have recently gone up. The decreased use of zero-percent financing on new vehicles, which led to strong consumer spending in the fourth quarter of 2001, will bring a downturn in automobile sales at the start of 2002. Given these factors, DRI-WEFA expects a drop in real consumer expenditures in the first quarter of 2002. While it is projected that recovery in consumer markets will be underway in the spring, the outlook changes when considering only consumer goods that are generally subject to the sales tax. Sales of such taxable goods are expected to decline by approximately 1.0% for the entire first six months of 2002, with only slow growth throughout the second half of the year.

Pre-tax corporate profits are expected to decline 16.2% in 2001, followed by growth of 2.6% in 2002 and 11.8% in 2003. The estimates for 2001 and 2002 are significantly lower than the May forecast (which was -5.0% in 2001 and 5.3% in 2002), reflecting weakness in trade and business investment. Industrial production fell in 13 of the last 14 months, as consumer demand weakened and inventory liquidation occurred. Continued declines in nonresidential construction are projected throughout 2002 and into the first quarter of 2003. However, it is expected that businesses will soon start rebuilding inventories (which DRI-WEFA estimates will begin in the first quarter of 2002). Investments in equipment and software are expected to show positive growth by the third quarter of the year, with investments in structures recovering in the fourth quarter. It is anticipated that these influences will help pre-tax corporate profits rebound in 2003 with growth that is 5% higher than the 6.8% rate projected in May.

Inflation is expected to remain relatively low. The consumer price index is estimated at 2.9% for 2001, 1.9% in 2002 and 2.6% in 2003. The estimates are slightly lower for 2001 and 2002, by 0.4% and 0.1%, respectively, and 1.0% higher for 2003 than the May projections. The unemployment rate is projected at 4.8% in 2001, 6.2% in 2002 and 5.9% in 2003. The estimates for 2002 and 2003 exceed the May projections by 0.6% in 2002 and 0.3% in 2003. The jobless rate is expected to peak in the summer of 2002.

DRI-WEFA anticipates that the magnitude of both the economic downturn and the recovery will be relatively modest. Under the baseline forecast, it is assumed that the bottom of the recession will occur during the first quarter of 2002. The peak-to-trough decline in real GDP is estimated at 0.6%, which is relatively small compared to past recessions. It is expected that the federal tax cuts approved before the terrorist attacks, the increased federal spending on education, security, defense and intelligence approved after September 11 and monetary policy that has enhanced liquidity and kept interest rates low will all aid in the economic turn-around. The forecast also assumes a reversal in business inventory liquidation, which has been underway since February, 2001, starting in the first quarter of 2002. In addition, DRI-WEFA projects that expenditures on travel and leisure activities will rebound as the impact of September 11 begins to fade.

The major risks to the forecast are for a more protracted downturn in investment, resulting in additional layoffs and inventory liquidation, and that federal spending will not be able to be ramped up as quickly as is expected. A deeper U.S. recession could also aggravate the global recession and cause already sliding U.S. exports to fall further. Under this scenario, DRI-WEFA assumes that the beginning of the recovery would be pushed back until summer and would follow a deeper drop in real GDP than is assumed under the baseline forecast. The forecast assigns a probability of 30% to this scenario. An additional significant risk is that consumer and business confidence could be shaken by further terrorist attacks or other negative developments in the war on terrorism.

Table 2 shows a summary of national economic indicators drawn from the January, 2002, forecast by DRI-WEFA.

**TABLE 2**  
**Summary of National Economic Indicators**  
**DRI-WEFA, January, 2002**  
**(\$ in Billions)**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Nominal Gross Domestic Product	\$9,872.9	\$10,196.5	\$10,387.1	\$11,007.0
% Change	6.5%	3.3%	1.9%	6.0%
Real Gross Domestic Product	\$9,224.0	\$9,319.2	\$9,374.4	\$9,721.2
% Change	4.1%	1.0%	0.6%	3.7%
Consumer Price Index	3.4%	2.9%	1.9%	2.6%
Personal Income	\$8,319.2	\$8,720.5	\$8,910.5	\$9,374.3
% Change	7.0%	4.8%	2.2%	5.2%
Personal Consumption Expenditures	\$6,728.4	\$7,050.3	\$7,213.4	\$7,650.9
% Change	7.7%	4.8%	2.3%	6.1%
Pre-Tax Corporate Profits	\$845.4	\$708.2	\$726.8	\$812.2
% Change	2.7%	-16.2%	2.6%	11.8%
Unemployment Rate	4.0%	4.8%	6.2%	5.9%

**General Fund Tax Projections.** Our estimates of general fund tax revenues for the 2001-03 biennium are based on tax collections to date and the January, 2002, DRI-WEFA forecast of national economic growth. In addition, all of the tax law changes adopted by the Legislature in Act 16 are reflected in these estimates. Projections of general fund tax collections for the 2001-03 biennium are shown in Table 3.

**TABLE 3**

**Projected General Fund Tax Collections  
(\$ in Millions)**

Source	2000-01 Tax Collections	Budget Estimates (Act 16)		Revised Estimates January, 2002	
		2001-02	2002-03	2001-02	2002-03
Individual Income	\$5,156.5	\$5,455.5	\$5,687.1	\$5,220.0	\$5,330.0
General Sales and Use	3,609.9	3,750.6	3,975.1	3,680.0	3,830.0
Corporate Income & Franchise	537.2	594.2	606.3	480.0	535.0
Public Utility	239.2	244.0	250.0	253.7	257.4
Excise					
Cigarette	243.5	300.4	306.6	296.4	304.6
Liquor and Wine	35.5	35.9	36.8	35.1	36.2
Beer	9.4	9.5	9.5	9.4	9.4
Tobacco Products	11.4	14.5	16.2	14.0	15.5
Insurance Company	89.0	90.0	92.0	87.0	90.0
Estate	77.1	110.0	91.0	85.0	67.0
Miscellaneous Taxes	54.7	56.6	60.3	57.6	59.6
<b>TOTAL</b>	<b>\$10,063.4</b>	<b>\$10,661.2</b>	<b>\$11,130.9</b>	<b>\$10,218.2</b>	<b>\$10,534.7</b>
Increase Over Prior Year					
Amount		\$597.8	\$469.7	\$154.8	\$316.5
Percent		5.9%	4.4%	1.5%	3.1%

As shown in Table 3, general fund tax revenues are estimated to total \$10,218.2 million in 2001-02 and \$10,534.7 million in 2002-03. These amounts are lower than the estimates used in Act 16 by \$443.0 million in the first year and \$596.2 million in the second year of the biennium. Individual income taxes, sales taxes, corporate taxes and estate taxes have all been revised downward significantly, based on recent collections data and the new economic forecast, while utility tax estimates are slightly higher. Small decreases are projected for most of the other tax sources.

## Revised General Fund Tax Estimates

**Individual Income Tax.** The current estimates of individual income tax collections are \$5,220.0 million in 2001-02 and \$5,330.0 million in 2002-03, which are lower than the estimates used in Act 16 by \$235.5 million in 2001-02 and \$357.1 million in 2002-03. Compared to prior years, the revised estimates reflect growth of 1.2% in 2001-02 and 2.1% in 2002-03. The decreases in the estimates compared to Act 16 are due to the fact that the economy is now in a recession, which was not expected under the May forecast. As noted, the current DRI-WEFA forecast of national personal income growth is 4.8% for 2001, 2.2% for 2001 and 5.2% for 2003. The earlier estimates were based on the May, 2001, forecast of personal income growth of 4.6% for 2001, 4.3% for 2002 and 5.7% for 2003. The current forecast projects that a higher proportion of personal income will come from transfer payments (such as social security, public assistance and unemployment benefits) than was projected in May. Transfer payments are generally nontaxable. The reestimates reflect both the lower growth expected in personal income and the shift toward more transfer payments.

Through December, 2001, income tax collections were 1.4% higher (\$30.7 million) than at the same time last year. Withholding payments, which make up the largest source of income tax revenues, have increased by 3.1% since last year (although the Department of Revenue believes that some of this growth is a matter of faster receipt of withholding payments as a result of the electronic funds transfer system that more employers are using to remit such payments). On the other hand, estimated tax payments, which reflect non-wage incomes, are 5.1% lower than at this time last year. In addition to economic factors, the slow growth in 2001-02 also reflects the final phase of implementing the income tax reductions adopted in the 1999-01 biennial budget (1999 Act 9).

The estimates of individual income taxes do not reflect a reduction that would occur in 2002-03 if the State of Minnesota were to withdraw from the income tax reciprocity agreement it has with the State of Wisconsin. Under the agreement, taxpayers who live in one of the two states and work in the other state are only required to file a return and pay taxes in the state of legal residence. As a result, Wisconsin foregoes tax revenue from residents of Minnesota who work here and Minnesota foregoes tax revenue from Wisconsin residents who work in Minnesota. On an annual basis, in December, Wisconsin reimburses Minnesota for the estimated amount of net foregone tax revenues to Minnesota in the prior year (which results in large part because more people live in Wisconsin and work in Minnesota than vice versa, so Minnesota loses more tax revenue by not collecting it directly from Wisconsin residents). The income tax reciprocity agreement is open-ended and may be unilaterally terminated by either state through legislative repeal. Governor Jesse Ventura has proposed ending the agreement, beginning in tax year 2003. If the Minnesota Legislature approves the repeal, Wisconsin would experience revenue losses in the first two fiscal years after the change, as described below.

If the agreement were terminated effective January 1, 2003, Wisconsin would stop withholding tax from Wisconsin residents working in Minnesota and begin to withhold tax on earnings of Minnesota residents working in Wisconsin. Based on preliminary information from the Department of Revenue, the change would reduce Wisconsin income tax collections in 2002-03 by an estimated \$27.5 million. In 2003-04, the cost to Wisconsin would be greater as there would be

the loss in tax revenues as well as the December payment to Minnesota for calendar year 2002. The Department estimates a net loss for 2003-04 of \$56.5 million. However, for 2004-05 and thereafter, the annual decrease in Wisconsin's withholding payment receipts would be balanced by the elimination of the annual reconciliation payment to Minnesota.

**General Sales and Use Tax.** Sales tax revenues were \$3,609.9 million in 2000-01, up 3.1% over the prior year. Revenues are estimated at \$3,680.0 million in 2001-02 and \$3,830.0 million in 2002-03, which is a decrease of \$70.6 million in the first year and \$145.1 million in the second year, relative to the Act 16 estimates. The revised projections are based on current collection data and the most recent forecast of growth in personal consumption expenditures, with adjustments for expenditures on food, gas and oil, and services to more closely reflect Wisconsin's sales tax base.

Year-to-date, sales tax collections through December were up by approximately 8.5% over the level collected during the same period of the prior fiscal year. However, this figure significantly overstates actual growth, since it is based on an artificially-low collections figure for December, 2000, that resulted when revenues that normally would have been reflected in that month were instead "booked" in January, 2001. When adjusted to correct for this anomaly, the current year-to-date level of growth becomes 4.5%. It is likely that this pace of growth is due in significant part to activity generated by zero-percent financing in the motor-vehicle industry and price reductions in the retail sector during the 2001 holiday shopping season and cannot be sustained for the balance of the fiscal year. This pattern is reflected in the economic forecast, which calls for a drop in taxable consumption expenditures of about 1% during the remainder of 2001-02, with only slight growth anticipated to occur in the first two quarters of 2002-03. Growth is expected to accelerate substantially in the second half of 2002-03.

**Corporate Income and Franchise Tax.** Corporate income and franchise tax collections were \$537.2 million in 2000-01, which was \$26.8 million less than estimated last May. The reduction reflected the slowdown in the economy and a related decrease in corporate earnings and profits. Collections are projected to be \$480.0 million in 2001-02 and \$535.0 million in 2002-03. These amounts represent an annual decrease of 10.6% in 2001-02 and an increase of 11.5% in 2002-03 and are lower than the Act 16 estimates by \$114.2 million in 2001-02 and \$71.3 million in 2002-03.

The new estimates reflect lower than anticipated corporate franchise tax collections and the effects of the economic slowdown on the state's economy. Through December, collections were almost 19% lower than 2000-01 collections for the same period. Consumer spending, investment, corporate earnings and profits have all declined during the year and are expected to remain soft during the first part of 2002. However, in part due to significant doses of monetary and fiscal stimuli, the economy is projected to begin to rebound in the second quarter of 2002. Corporate profits are forecast to increase beginning in the latter part of 2002 and in 2003 and 2004. Consequently, corporate income and franchise tax revenues are estimated to increase between 2002 and 2003.

**Public Utility Taxes.** Public utility taxes were \$239.2 million in 2000-01 and are projected to total \$253.7 million in 2001-02 and \$257.4 million in 2002-03. The projections are \$9.7 million

higher for 2001-02 and \$7.4 million higher for 2002-03 than the Act 16 estimates, based on recent collections data and forecasts of energy usage.

**Excise Taxes.** Cigarette excise tax revenues are estimated to be \$296.4 million in 2001-02 and \$304.6 million in 2002-03. The first-year estimate is an increase of 21.7% over the 2000-01 actual total of \$243.5 million and is due to a tax increase of \$0.18 per pack that took effect on October 1, 2001. Actual volume (packs sold) continued its historical trend of moderate decline in 2000-01, with this trend expected to continue. The revenue increases now estimated are somewhat weaker than those anticipated at the time of Act 16's passage; they reflect downward revisions of \$4.0 million and \$2.0 million for 2001-02 and 2002-03, respectively.

Estimates of revenues from the liquor, tobacco products and beer taxes have been revised downward to reflect generally lower consumption levels than those anticipated earlier. Estimates of tobacco products tax revenues reflect an Act 16 increase in the tax rate from 20% of the manufacturer's price to 25%.

**Insurance Premium Taxes.** Insurance premium taxes increased from \$86.9 million in 1999-00 to \$89.0 million in 2000-01. Premium taxes are projected to decrease to \$87.0 million in 2001-02 and then increase to \$90.0 million in 2002-03. The projected decline in 2001-02 reflects year-to-date monthly premium tax collections through December, which are lower than 2000-01 for the same period. The increase in premium tax revenues in 2002-03 is based on expected moderate growth in life and property and casualty insurance sales.

**Estate Tax.** Estate tax revenues totaled \$77.1 million in 2000-01, and are estimated at \$85.0 million in 2001-02 and \$67.0 million in 2002-03. The estimates are lower than the Act 16 amounts by \$25.0 million in 2001-02 and \$24.0 million in 2002-03.

Annual estate tax collections are significantly affected by the settlement, or lack thereof, of a small number of large estates. Collections may, therefore, vary considerably from year to year. The Act 16 estimate assumed that estate tax revenues would be \$110.0 million in 2001-02 and \$91.0 million in 2002-03. [The lower figure for 2002-03 reflects the reduction in state estate tax collections as a result of the federal law changes under the Economic Growth and Tax Relief Reconciliation Act of 2001.] However, actual collections for 2000-01 were \$77.1 million, which was a 42.2% decrease from the prior year. Based on year-to-date collections and the current economy, estate tax revenues have been reestimated at the lower figures shown above.

**Miscellaneous Taxes.** Collections from the real estate transfer fee have been revised upward for 2001-02 relative to the Act 16 estimates, due to strong collections through December, 2001. The same level of growth is not expected to continue in 2002-03, however, resulting in a small downward shift in expected revenue from the fee for that year, relative to the Act 16 estimate. Anticipated collections from the court suit tax are down slightly in both years from the Act 16 estimates. In 2000-01, the two taxes brought in combined revenues of \$54.7 million.

## Departmental Revenues and Net Expenditures

It is projected that departmental revenues (non-tax receipts) will be lower than previous estimates by \$9.7 million. Although increases are projected in a number of areas, these increases are offset by a reduction in interest earnings because of lower interest rates. It is important to note that the estimate of interest earnings factored into this memorandum assumes that the Legislature will take steps necessary to balance the 2001-03 general fund budget.

On the appropriation side, it is now anticipated that net expenditures will be below the projections of Act 16 by \$24.6 million. For the biennium, sum sufficient appropriations are projected to increase by \$27.8 million while appropriated amounts expected to lapse to the general fund are above the biennial budget estimates by \$52.4 million. Included in the increased lapse estimate is \$28.3 million, which is anticipated due to the 3.5% reduction to a number of state operations appropriations that the Governor announced in December, 2001, for the 2001-02 fiscal year.

In addition to the sum sufficient and lapse projections, mention should be made of some appropriations and programs which might require attention in the upcoming legislative floor periods.

It is estimated that medical assistance (MA) benefit costs will exceed the amount budgeted for the program by approximately \$30 million GPR in 2001-02. This estimate is based on a review of MA benefits payments to December, 2001, adjusted to reflect recent increases in the projected number of MA recipients. Most of the caseload growth is due to increases in the number of applicants that meet AFDC-related MA eligibility standards. The Act 16 MA base reestimate assumed modest growth in the number of AFDC-related MA recipients in 2001-02 and 2002-03. However, as of December 1, 2001, the number of AFDC-related MA recipients (approximately 167,100) exceeded the projected 2001-02 fiscal year average (148,800) by 18,300. In addition, projected benefit costs for some services, including nursing home and hospital services and capitation payments to health maintenance organizations, are expected to exceed Act 16 estimates. The costs of providing some services and benefits, such as home health services and prescription drugs, are expected to be somewhat less than the Act 16 projections. Based on current trends in caseload and service costs, a similar shortfall in GPR MA benefits funding is likely to occur in 2002-03. Caseload growth may also result in some spending pressure on the BadgerCare program.

Act 16 provides \$25,249,000 GPR in 2001-02 and \$28,097,800 GPR in 2002-03 in a sum certain appropriation to fund: (a) adoption assistance payments to families that adopt children with special needs to assist in the cost of care for these children; and (b) payments to families and facilities that provide foster care to children for whom the state serves as guardian. Based on actual payments through December, 2001, it is estimated that an additional \$1.8 million GPR in 2001-02 and \$2.5 million GPR in 2002-03 will be needed to fully fund state foster care and adoption assistance payments in the 2001-03 biennium.

The administration is currently negotiating with the U.S. Department of Health and Human Services, Centers for Medicaid and Medicare Services (CMS) about the state's claiming federal MA matching funds under the intergovernmental transfer (IGT) program. The results of these negotiations could significantly affect the amount of funding available to support MA costs in the current biennium and in future years. The primary issues of these negotiations are: (a) whether the state will be required to return approximately \$83.2 million in federal MA matching funds the state claimed in 1999-00; and (b) the amount of federal MA matching funds the state will be able to claim in the future under the IGT program. To date, the state and CMS have not reached an agreement.

We will continue to monitor tax collections, economic forecasts and expenditures and keep you apprised if any further modifications are necessary.

Sincerely,

A handwritten signature in black ink that reads "Bob". The letters are stylized and cursive.

Robert Wm. Lang  
Director

RWL/sas

cc: Members, Wisconsin Legislature

**General Fund Information; General Fund Cash Flow (Part II–Pages 35-41).**

The following provide updates to various tables containing general fund information. The following information reflects revised revenue estimates and projected general fund closing balances released by the Legislative Fiscal Bureau on January 16, 2002 and the budget reform bill that the Governor signed into law on July 26, 2002. The following provides general fund cash balances. While the following tables show a negative cash balance on June 30, 2002 and June 30, 2003, the budget reform bill, as signed into law, does provide for a positive budgetary fund balance on these dates.

**Table II-8; Actual and Projected General Fund Cash Flow (Page 37). Update the table with the following:**  
**ACTUAL GENERAL FUND CASH FLOW; JULY 1, 2001 TO JUNE 30, 2002<sup>(a)</sup>**

	July 2001	August 2001	September 2001	October 2001	November 2001	December 2001	January 2002	February 2002	March 2002	April 2002	May 2002	June 2002
(In Thousands of Dollars)												
<b>BALANCES<sup>(b)</sup></b>												
Beginning Balance	281,565	3,398	397,659	1,290,819	1,821,610	943,651	383,667	1,104,720	969,120	-231,221	265,687	576,402
Ending Balance	3,398	397,659	1,290,819	1,821,610	943,651	383,667	1,104,720	969,120	-231,221	265,687	576,402	-421,915
Lowest Daily Balance <sup>(c)</sup>	-162,060	-202,246	-99,652	1,248,678	943,651	-60,419	383,667	883,723	-280,013	-359,784	-4,720	-727,357
<b>RECEIPTS</b>												
<b>TAX RECEIPTS</b>												
Individual Income	507,468	388,372	533,868	508,613	399,103	479,545	740,505	433,688	347,168	855,221	392,265	517,532
Sales & Use	343,973	356,048	342,096	348,297	358,636	323,558	383,293	303,711	260,578	305,548	325,402	326,813
Corporate Income	12,421	16,903	112,886	24,461	10,693	126,388	22,464	12,155	153,340	23,862	15,539	100,395
Public Utility	0	0	518	3,561	1,357	1,311,654	49	19	3,392	127,117	246	246
Excise	29,231	26,372	28,085	27,504	39,451	27,407	27,457	30,526	25,651	26,687	30,945	29,756
Insurance	999	1,657	19,935	339	887	19,336	2,245	11,471	14,959	25,486	4,329	21,984
Inheritance	6,638	6,162	13,423	5,645	5,568	4,969	7,275	8,310	4,675	10,147	3,781	8,466
<b>Subtotal Tax Receipts</b>	900,730	795,514	1,050,811	918,420	945,992	982,560	1,183,239	795,910	806,390	1,250,343	899,378	1,005,192
<b>NON-TAX RECEIPTS</b>												
Federal	343,646	452,855	365,526	452,845	346,684	378,392	457,577	444,893	390,521	443,150	426,659	479,199
Other & Transfers <sup>(d)</sup>	331,074	249,196	303,861	260,628	176,794	169,672	373,822	325,284	333,621	376,849	829,134	268,909
Note Proceeds <sup>(e)</sup>	0	0	800,000	0	0	0	0	0	0	0	0	0
<b>Subtotal Non-Tax Receipts</b>	674,720	702,051	1,469,387	713,473	523,478	548,064	831,399	770,177	724,142	819,999	1,255,793	748,108
<b>TOTAL RECEIPTS</b>	1,575,450	1,497,565	2,520,198	1,631,893	1,469,470	1,530,624	2,014,638	1,570,087	1,530,532	2,070,342	2,155,171	1,753,300
<b>DISBURSEMENTS</b>												
Local Aids	878,438	1,604,558	663,004	99,188	975,970	1,138,856	208,135	260,487	1,140,896	122,049	250,535	1,729,015
Income Maintenance	363,315	352,214	309,334	372,969	339,757	342,249	335,842	349,016	361,694	359,467	394,422	365,417
Payroll and Related	215,318	300,380	204,832	303,186	421,307	234,716	326,851	296,263	298,780	328,583	441,038	246,924
Tax Refunds	105,487	44,995	46,906	43,602	66,467	138,297	63,460	338,234	309,105	292,892	220,041	150,891
Debt Service	7	12,463	108,775	0	1,882	0	0	12,069	165,264	0	7,814	-5
Miscellaneous <sup>(f)</sup>	291,052	232,794	294,187	282,157	542,046	236,490	359,297	252,672	230,417	265,335	325,208	259,375
Note Repayment <sup>(g)</sup>	0	0	0	0	0	0	0	196,946	204,717	205,108	205,398	0
<b>TOTAL DISBURSEMENTS</b>	1,853,617	1,103,304	1,627,038	1,101,102	2,347,429	2,090,608	1,293,585	1,705,687	2,730,873	1,573,434	1,844,456	2,751,617

(a) Excludes interfund borrowing. The report does NOT intend to represent the State's budgetary balance for the fiscal year ending June 30, 2002. The State will provide by October 15, 2002 the Annual Fiscal Report that will include the ending cash balance for FY 02, which ended on June 30, 2002. The ending cash balance for FY02 may change from negative \$422 million due to correcting or reconciling adjusting entries. The report also does NOT reflect the budget reform bill that has been signed into law by the Governor on July 26, 2002.

(b) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for the designated programs and the disbursement of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. These designated funds were expected to range from \$150 to \$300 million during the 2001-02 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or federal rulings. These funds were expected to average approximately \$50 million during the 2001-02 fiscal year.

(c) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. Based on the revised general fund condition statement provided by the Legislative Fiscal Bureau in January 2002, this amount was \$569 million for fiscal year 2001-02. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (\$341 million) for a period of up to 30 days. See "Balances In Funds Available For Interfund Borrowing".

(d) Reflects receipt on May 23, 2002 of the \$450 million of proceeds from the sale and subsequent securitization of payments due the State from tobacco manufacturers under the Master Settlement Agreement.

(e) Includes \$800 million in operating note proceeds received in September, 2001 and impoundment payments made on February 28, March 29, April 30, and May 31, 2002. The February 28, 2002 impoundment payment excluded the premium that was deposited on September 20, 2001 into the operating note redemption fund.

(f) \$275 million in federal intergovernmental transfer funds were transferred to the Medical Assistance Trust Fund on November 30, 2001.

**PROJECTED GENERAL FUND CASH FLOW; JULY 1, 2002 TO JUNE 30, 2003<sup>(a)</sup>**

(In Thousands of Dollars)

	July 2002	August 2002	September 2002	October 2002	November 2002	December 2002	January 2003	February 2003	March 2003	April 2003	May 2003	June 2003
<b>BALANCES<sup>(b)</sup></b>												
Beginning Balance	-421,915	-707,950	-80,555	80,792	467,546	500,745	-69,441	654,971	843,574	-15,696	626,843	756,187
Ending Balance <sup>(c)</sup>	-707,950	-80,555	80,792	467,546	500,745	-69,441	654,971	843,574	-15,696	626,843	756,187	-188,469
Lowest Daily Balance <sup>(c)</sup>	-835,846	-672,373	-469,578	-94,366	346,100	-586,740	-99,474	489,230	-184,467	-214,332	310,487	-690,079
<b>RECEIPTS</b>												
<b>TAX RECEIPTS</b>												
Individual Income	460,095	376,931	561,418	455,993	406,649	422,952	801,978	421,220	434,106	772,721	419,624	596,086
Sales & Use	348,684	369,605	333,614	354,095	348,123	261,032	402,229	309,647	293,937	295,981	353,173	337,702
Corporate Income	18,697	16,528	115,454	24,656	14,442	129,070	21,589	10,866	139,619	25,385	15,475	113,814
Public Utility	185	8	255	2,198	131,354	821	319	10	358	11,550	110,080	260
Excise	32,837	34,192	34,550	29,379	33,113	31,604	29,169	27,873	26,762	29,331	28,279	31,817
Insurance	1,115	1,784	18,275	1,577	1,011	19,553	1,641	6,984	15,417	17,247	2,609	18,356
Inheritance	6,290	5,594	5,485	4,359	3,914	12,589	3,959	6,686	6,945	5,755	2,935	4,193
<b>Subtotal Tax Receipts</b>	867,903	804,642	1,069,051	872,257	938,606	877,621	1,260,884	783,286	917,144	1,157,970	932,175	1,102,228
<b>NON-TAX RECEIPTS</b>												
Federal	459,169	337,445	367,139	422,614	339,334	375,171	520,748	431,686	409,647	404,427	414,029	426,321
Other & Transfers <sup>(d)</sup>	298,608	562,528	385,568	260,762	267,865	245,459	365,139	329,873	298,147	352,668	274,763	330,888
Note Proceeds <sup>(e)</sup>	0	0	0	0	0	0	0	0	0	0	0	0
<b>Subtotal Non-Tax Receipts</b>	757,777	899,973	752,707	683,376	607,199	620,630	885,887	761,559	707,794	757,095	688,792	757,209
<b>TOTAL RECEIPTS</b>	1,625,680	1,704,615	1,821,758	1,555,633	1,545,805	1,498,251	2,146,771	1,544,845	1,624,938	1,915,065	1,620,967	1,859,437
<b>DISBURSEMENTS</b>												
Local Aids <sup>(f)</sup>	904,122	142,850	728,394	116,646	446,464	1,200,571	217,612	283,242	1,197,945	117,616	247,682	1,807,322
Income Maintenance	356,894	312,016	298,755	359,800	327,629	292,526	384,339	302,172	300,811	377,619	337,044	307,078
Payroll and Related	295,657	315,313	207,542	373,212	420,350	218,927	411,144	298,560	221,408	333,915	435,905	249,021
Tax Refunds	70,545	51,665	40,731	47,809	72,103	39,929	55,503	221,254	262,633	214,890	163,748	138,003
Debt Service	0	2,840	126,322	0	2,840	0	0	2,840	255,480	0	29,399	0
Miscellaneous	284,497	252,536	258,667	271,412	243,220	316,484	353,761	248,174	245,931	228,486	277,845	302,669
Note Repayment <sup>(g)</sup>	0	0	0	0	0	0	0	0	0	0	0	0
<b>TOTAL DISBURSEMENTS</b>	1,911,715	1,077,220	1,660,411	1,168,879	1,512,606	2,068,437	1,422,359	1,356,242	2,484,208	1,272,526	1,491,623	2,804,093

(a) Excludes interfund borrowing and is based on (1) the 2001-03 biennial budget signed into law by the Governor (2001 Wisconsin Act 16), (2) the revised general-fund revenue estimates and projected general fund closing balances that were released by the Legislative Fiscal Bureau on January 16, 2002, and (3) the budget reform bill for the 2001-03 biennium that Governor McCallum signed into law on July 26, 2002.

(b) The General Fund cash balances presented in this schedule are not based on Generally Accepted Accounting Principles (GAAP). The General Fund includes funds designated for operations and capital purposes of certain proprietary programs of the State's Universities. Receipts and disbursements of such funds for other purposes are reflected in the cash flow. A use of the designated funds for purposes other than the proprietary programs is, in effect, a borrowing of such funds. Therefore, at any time that the balance in the General Fund is less than the balance of such designated funds, the State is obligated to replenish the designated funds to the extent of the shortfall. The designated funds are expected to range from \$150 to \$300 million during the 2002-03 fiscal year. In addition, the General Fund is the depository for several escrow accounts pursuant to court orders or Federal rulings. These funds are expected to average approximately \$50 million during the 2002-03 fiscal year.

(c) The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. Based on the budget reform bill for the 2001-03 biennium that Governor McCallum signed into law on July 26, 2002, this amount is approximately \$551 million for fiscal year 2002-03. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (approximately \$331 million) for a period of up to 30 days. See "Balances In Funds Available For Interfund Borrowing". If the amount of inter-fund borrowing available to the general fund is not sufficient, the Secretary of Administration is authorized and ready to prorate and defer certain payments.

(d) Reflects receipt on August 1, 2002 of \$231 million of proceeds from the sale and subsequent securitization of payments due the State from tobacco manufacturers under the Master Settlement Agreement.

(e) Does not include any proceeds from the issuance of operating notes and as a result does not include any impoundment payments.

(f) Reflects use in November 2002 of \$600 million of proceeds from the sale and subsequent securitization of payments due the State from tobacco manufacturers under the Master Settlement Agreement to make a shared revenue payment.

**Table II-9; General Fund Monthly Position (Page 38).** Update the table with the following:

**GENERAL FUND MONTHLY CASH POSITION<sup>(a)</sup>**  
**July 1, 2000 through June 30, 2002 — Actual**  
**July 1, 2002 through June 30, 2003 — Estimated<sup>(b)</sup>**  
**(Amounts in Thousands)**

	<u>Starting Date</u>	<u>Starting Balance</u>	<u>Receipts<sup>(c)</sup></u>	<u>Disbursements<sup>(c)</sup></u>	
2000	July.....	\$ 671,608	\$ 1,405,811	\$ 1,674,899	
	August.....	402,520	1,391,600	1,036,240	
	September.....	757,880	1,716,848	1,540,488	
	October.....	934,240	1,545,868	1,039,609	
	November.....	1,440,499	1,451,918	1,886,868	
	December.....	1,005,549	1,335,205	2,070,373	
	2001	January.....	270,381	2,143,861	1,190,946
		February.....	1,223,296	1,494,577	1,339,377
		March.....	1,378,496	1,381,012	2,312,836
		April.....	446,672	2,042,531	1,469,093
		May.....	1,020,110	1,800,948	1,405,982
		June.....	1,415,076	1,698,317	2,831,828
July.....		281,565	1,575,450	1,853,617	
August.....		3,398	1,497,565	1,103,304	
September.....		397,659	2,520,198	1,627,038	
October.....		1,290,819	1,631,893	1,101,102	
November.....		1,821,610	1,469,470	2,347,429	
December.....		943,651	1,530,624	2,090,608	
2002	January.....	383,667	2,014,638	1,293,585	
	February.....	1,104,720	1,570,087	1,705,687	
	March.....	969,120	1,530,532	2,730,873	
	April.....	(231,221)	2,070,342	1,573,434	
	May.....	265,687	2,155,171	1,844,456	
	June.....	576,402	1,753,300	2,751,617	
	July.....	(421,915) <sup>(d)</sup>	1,625,680	1,911,715	
	August.....	(707,950) <sup>(d)</sup>	1,704,615	1,077,220	
	September.....	(80,555) <sup>(d)</sup>	1,821,758	1,660,411	
	October.....	80,792	1,555,633	1,168,879	
	November.....	467,546	1,545,805	1,512,606	
	December.....	500,745	1,498,251	2,068,437	
January.....	(69,441) <sup>(d)</sup>	2,146,771	1,422,359		
February.....	654,971	1,544,845	1,356,242		
March.....	843,574	1,624,938	2,484,208		
April.....	(15,696) <sup>(d)</sup>	1,915,065	1,272,526		
May.....	626,843	1,620,967	1,491,623		
June.....	756,187 <sup>(d)</sup>	1,859,437	2,804,093		

<sup>(a)</sup> The General Fund balances presented in this table are not based on Generally Accepted Accounting Principles (GAAP).

<sup>(b)</sup> The monthly receipt and disbursement projections for July 1, 2002 through June 30, 2003 are based on (1) the revised general-fund revenue estimates and projected general fund closing balances that were released by the Legislative Fiscal Bureau on January 16, 2002, and (2) the Budget Reform Bill that was signed into law by the Governor on July 26, 2002.

<sup>(c)</sup> The amounts shown in September 2001 include receipts from the issuance of operating notes and amounts shown in February–May 2002 include disbursements for impoundment payments required in connection with the issuance of operating notes. No operating notes were issued in the 2000-01 fiscal year and the amounts shown for the 2002-03 fiscal year do not include receipts or impoundment payments resulting from the issuance of operating notes.

<sup>(d)</sup> The Statutes provide certain administrative remedies to deal with periods when the General Fund is in a negative position. The Secretary of Administration may temporarily reallocate cash in other funds (up to 5% of the general-purpose revenue appropriations then in effect) to the General Fund. Based on the revised general fund condition statement provided by the Legislative Fiscal Bureau in January 2002, this amount was \$569 million for fiscal year 2001-02 and based on the budget reform bill for the 2001-03 biennium, as signed into law, is approximately \$551 million for fiscal year 2002-03. In addition, the Secretary of Administration may also temporarily reallocate an additional amount up to 3% of the general-purpose revenue appropriations then in effect (\$341 million for fiscal year 2001-02 and approximately \$331 million for fiscal year 2002-03) for a period of up to 30 days. See Page A-18.

**Source: Wisconsin Department of Administration.**

**Table II-10; Balances in Funds Available for Interfund Borrowing (Page 39).** Update the table with the following:

**BALANCES IN FUNDS AVAILABLE FOR INTERFUND BORROWING<sup>(a)</sup>**

**July 31, 2000 to June 30, 2002 — Actual**

**July 31, 2002 to June 30, 2003— Estimated<sup>(b)</sup>**

**(Amounts in Millions)**

<u>Month (Last Day)</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
January.....		\$ 4,435	\$ 5,360	\$ 1,887
February.....		4,786	5,463	1,976
March.....		5,213	5,628	2,011
April.....		4,952	5,135	1,825
May.....		4,680	4,819	1,809
June.....		4,925	5,001	1,882
July.....	\$ 4,084	5,275	1,815 <sup>(b)</sup>	
August.....	3,743	4,785	1,781	
September.....	3,796	4,897	1,777	
October.....	3,378	4,328	1,613	
November.....	3,489	4,242	1,601	
December.....	3,701	4,737	1,781	

<sup>(a)</sup> Consists of the following funds:

Transportation	Common School
Conservation (Partial)	Normal School
Wisconsin Health Education Loan Repayment	University
Waste Management	Local Government Investment Pool
Wisconsin Election Campaign	Farms for the Future
Investment & Local Impact	Agrichemical Management
Elderly Property Tax Deferral	Historical Society Trust
Lottery	School Income Fund
Children's Trust	Benevolent
Racing	Groundwater
Work Injury Supplemental Benefit	Petroleum Storage Environmental Cleanup
Unemployment Compensation Interest Repayment	Environmental Improvement Fund
Uninsured Employers	Environmental
Health Insurance Risk Sharing Plan	Recycling
Local Government Property Insurance	University Trust Principal
Patients Compensation	Veterans Mortgage Loan Repayment
Mediation	State Building Trust
Agricultural College	

<sup>(b)</sup> Estimated balances for June 30, 2002 and subsequent months include as an assumption only 20% of the amount estimated to be available for the local government investment pool. The local government investment pool is composed of funds deposited by local units of government that may be withdrawn without notice. Balances in the local government investment pool the past five years have ranged from a low of \$2.096 million on November 14, 1997 to a high of \$4.518 billion on August 9, 2001. Under Section 20.002 (11), Wisconsin Statutes, interfund borrowing is limited to 5% of the total general-purpose revenue appropriations then in effect and an additional 3% for a period of up to 30 days. Based on the revised general fund condition statement provided by the Legislative Fiscal Bureau in January 2002, the 5% amount was \$569 million for fiscal year 2001-02, and based on the budget reform bill for the 2001-03 biennium, as signed into law, is approximately \$551 million for fiscal year 2002-03. The additional 3% amount for a period of up to 30 days was \$341 million for fiscal year 2001-02 and is approximately \$331 million for fiscal year 2002-03.

**Source: Wisconsin Department of Administration.**

**Table II-11; General Fund Revenues (Page 40).** Update the table with the following (please note that the Actual Revenues for the 2000-01 fiscal year presented in Table II-11 of the 2001 Annual Report were incorrect and are correctly presented below):

**GENERAL FUND REVENUES<sup>(a)</sup>**  
**July 1, 2001 to June 30, 2002 compared with previous year**  
**(Unaudited)**

	<u>Actual Revenues</u> <u>2000-01FY<sup>(b)</sup></u>	<u>Projected</u> <u>Revenues</u> <u>2001-02 FY<sup>(c)</sup></u>	<u>Actual Revenues</u> <u>July 1, 2000 to</u> <u>June 30, 2001</u>	<u>Actual Revenues</u> <u>July 1, 2001 to</u> <u>June 30, 2002</u>
Individual Income Tax .....	\$ 5,156,565,000	\$ 5,211,800,000	\$ 4,725,971,194	\$ 4,509,662,599
General Sales and Use Tax ..	3,609,895,000	3,680,000,000	3,251,963,963	3,330,181,973
Corporate Franchise and Income Tax .....	537,159,000	479,700,000	542,395,802	508,899,944
Public Utility Taxes .....	239,238,000	253,700,000	239,628,753	251,854,265
Excise Taxes .....	299,775,000	354,850,000	271,939,928	316,034,464
Inheritance Taxes .....	77,084,000	85,000,000	77,348,470	82,710,488
Miscellaneous Taxes .....	159,615,000	144,600,000	65,446,092	73,827,005
SUBTOTAL.....	<u>10,079,331,000</u>	<u>10,209,650,000</u>	<u>9,174,694,202</u>	<u>9,073,170,738</u>
Federal Receipts <sup>(d)</sup> .....	5,472,647,000	4,764,099,400	5,428,367,738	6,391,020,318
Dedicated and Other Revenues <sup>(e)</sup> .....	<u>3,733,756,000</u>	<u>3,857,472,400</u>	<u>3,755,628,673</u>	<u>4,281,333,414</u>
TOTAL.....	<u>\$ 19,285,734,000</u>	<u>\$ 18,831,221,800</u>	<u>\$ 18,358,690,613</u>	<u>\$ 19,745,524,470</u>

- (a) The amounts do not reflect the State's ending balance for the fiscal year ended June 30, 2002. The amounts shown are based on the statutory accounting basis and not on GAAP. The statutory accounting basis requires that some cash deposits made after June 30 are recorded as revenues in the prior fiscal year. Therefore, the revenues in this table will not be comparable to the receipts shown in the general fund cash flow tables included earlier in the report. See "ACCOUNTING AND FINANCIAL REPORTING" in Part II of the State of Wisconsin Continuing Disclosure Annual Report, December 19, 2001.
- (b) The amounts shown are the sum of all revenues for fiscal year 2000-01 based on the data used in the preparation of the Annual Fiscal Report, Budgetary Basis, for the year ended June 30, 2001.
- (c) Projected revenues are based on (1) the 2001-03 biennial budget (2001 Wisconsin Act 16), (2) the revised general-fund revenue estimates that were released by the Legislative Fiscal Bureau on January 16, 2002, and (3) the budget reform bill for the 2001-03 biennium that was initially proposed by the Governor, but not the version signed into law on July 26, 2002.
- (d) This category includes intergovernmental transfers. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.
- (e) The statutory basis of accounting requires that certain transfers between General Fund appropriations be recorded as both revenues and expenditures of the General Fund. The amount of these transfers may vary greatly between fiscal years, and therefore, this category may not be comparable on a historical basis.

**Source: Wisconsin Department of Administration.**

**Table II-12; General Fund Expenditures by Function (Page 41).** Update the table with the following (please note that the Actual Expenditures for the 2000-01 fiscal year presented in Table II-12 of the 2001 Annual Report were incorrect and are correctly presented below):

**GENERAL FUND EXPENDITURES BY FUNCTION<sup>(a)</sup>  
July 1, 2001 to June 30, 2002 compared with previous year  
(Unaudited)**

	Actual Expenditures <u>2000-01 FY<sup>(b)</sup></u>	Appropriations <u>2001-02 FY<sup>(c)</sup></u>	Actual Expenditures July 1, 2000 to <u>June 30, 2001</u>	Actual Expenditures July 1, 2001 to <u>June 30, 2002</u>
Commerce.....	\$ 221,297,000	\$ 227,375,400	\$ 198,769,259	\$ 197,308,057
Education.....	8,353,243,000	8,628,320,500	8,260,686,345	8,543,302,073
Environmental Resources.....	272,918,000	256,733,500	263,226,746	218,978,589
Human Relations & Resources.....	7,287,626,000	7,404,489,100	7,421,203,809	8,491,437,223
General Executive.....	651,970,000	634,499,300	647,756,285	622,668,538
Judicial.....	108,676,000	103,047,200	105,763,121	103,511,795
Legislative.....	62,220,000	59,636,100	57,909,745	58,707,696
General Appropriations.....	<u>2,490,467,000</u>	<u>1,953,566,300</u>	<u>2,470,911,322</u>	<u>2,850,427,151</u>
TOTAL.....	<u>\$ 19,448,417,000</u>	<u>\$ 19,267,667,400</u>	<u>\$ 19,426,226,632</u>	<u>\$ 21,086,341,122</u>

(a) The amounts shown do not reflect the State's ending balance for the fiscal year ended June 30, 2002. The amounts are based on the statutory accounting basis and not on GAAP. The statutory accounting basis requires that some expenditures made after June 30 be recorded as expenses in the prior fiscal year. Therefore, the expenditures in this table will not be comparable to the disbursements shown in the general fund cash flow tables included earlier in the report. See "ACCOUNTING AND FINANCIAL REPORTING" in Part II of the State of Wisconsin Continuing Disclosure Annual Report, December 19, 2001.

(b) The amounts shown are the sum of all expenditures for fiscal year 2000-01 based on the data used in the preparation of the Annual Fiscal Report, Budgetary Basis, for the year ended June 30, 2001.

(c) Estimated appropriations based on the 2001-03 biennial budget (2001 Wisconsin Act 16) and also reflect the budget reform bill for the 2001-03 biennium that was initially proposed by the Governor, but not the version signed into law on July 26, 2002.

**Source: Wisconsin Department of Administration.**

## APPENDIX D

### DEFINITIONS OF CERTAIN TERMS

The following definitions apply to capitalized terms used in this Official Statement.

**Accreted Value** means, with respect to any Capital Appreciation Bond, the initial principal amount at which such Capital Appreciation Bond is sold to the initial purchaser by the State without reduction to reflect underwriter's discount, compounded from the date of delivery of such Bonds semiannually on each interest payment date prior to the date of calculation (and including such date of calculation if such date of calculation shall be an interest payment date) at the original issue yield to maturity less, with respect to Bonds with interest payable on a current basis, interest paid and payable during such period plus, if such date of calculation shall not be an interest payment date, a portion of the difference between the Accreted Value as of the immediately preceding interest payment date and the Accreted Value as of the immediately succeeding interest payment date calculated based upon an assumption that Accreted Value accrues during any semiannual period in equal daily amounts (based on a 360-day year of twelve 30-day months); provided, however, that the calculation of Accreted Value for purposes of determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent or waiver under the General Resolution shall be based upon the Accreted Value calculated as of the interest payment date immediately preceding such date of calculation (unless such date of calculation shall be an interest payment date, in which case shall be calculated as of the date of calculation).

**Act** means Sections 281.58 and 281.59 of the Wisconsin Statutes, as amended.

**Administrative Fund** means the fund of that name established by the General Resolution.

**Aggregate Debt Service** for any period means, with respect to the Bonds, as of any date of calculation, the sum of the amounts of Debt Service for such period.

**Authorized Officer** means the Capital Finance Director of the State and any other person designated in writing to the Trustee by the Capital Finance Director or by the Commission as an Authorized Officer.

**Bond** or **Bonds** means any bond or bonds, as the case may be, authenticated and delivered under the General Resolution pursuant to a Series Resolution.

**Bond Depository** means, initially, The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York or any other bond depository appointed by the Commission to act as bond depository for the Bonds in connection with a book-entry-only system of distributing Bonds.

**Bondowners** or **Owner of Bonds** or **Owner** (when used with reference to Bonds) or any term of similar import means the person or party in whose name the Bond is registered.

**Business Day** means any day other than a Saturday or Sunday or other day on which commercial banks in the city in which the principal office of the Trustee is located are not open for business, except as may be provided in a Series or Supplemental Resolution.

**Capital Appreciation Bond** means Bonds that provide for the addition of all or any part of accrued and unpaid interest thereon to the principal due thereon upon such terms and for such periods of time as may be determined by the applicable Series Resolution.

**Capitalized Interest Account** means the account of that name established within the Debt Service Fund by the General Resolution.

**Clean Water Fund Program** means the program established pursuant to the Act and operated and administered as part of the Environmental Improvement Fund.

**Code** means the Internal Revenue Code of 1986, as amended from time to time, and all regulations promulgated thereunder to the extent applicable to any Bonds, Loans or Municipal Obligations, as the case may be.

**Commission** means the State of Wisconsin Building Commission or any successor body having the power under the Subchapter II of Chapter 18, as amended, of the Statutes to authorize and direct the issuance of Bonds.

**Commitment** means a notice of financial assistance commitment entered into between DNR, DOA and a Municipality.

**Contribution Amount** has the meaning set forth in the definition of “Loan Credit Reserve Fund Requirement.”

**Costs of Issuance** means, except as limited in any Series Resolution, any items of expense directly or indirectly payable by or reimbursable to the State and related to the authorization, sale and issuance of Bonds or Notes and the investment of the proceeds thereof, including, but not limited to, printing costs, costs of reproducing documents, filing and recording fees, initial fees and charges of Fiduciaries, legal fees and charges, professional consultants’ fees, costs of credit ratings, premiums for insurance of the payment of Bonds or Notes, or any fees and expenses payable in connection with any entity insuring the State, the Trustee or the owners of the Bonds or Notes against loss on Loans or Municipal Obligations, fees and charges for execution, transportation and safekeeping of Bonds or Notes, costs and expenses of refunding of Bonds or Notes, fees and expenses payable in connection with any Credit Facility, remarketing agreements, tender agent agreements or interest rate indexing agreements, and other costs, charges and fees in connection with the original issuance of Bonds or Notes.

**Costs of Issuance Account** means the account of that name established within the Administrative Fund by the General Resolution.

**Counsel’s Opinion** means an opinion signed by an attorney or firm of attorneys selected by or satisfactory to the State (who may be counsel to the State); provided, however, that for the purposes of Article II of the General Resolution (addressing authorization and issuance of Bonds) such term means an opinion signed by an attorney or firm of attorneys of recognized standing in the field of law relating to municipal bonds selected by the State and provided, further, that for the purposes of Section 8.08 of the General Resolution (addressing conditions for delivery of Municipal Obligations), such term means an opinion signed by an attorney or firm of attorneys selected by the Municipality and approved by the State.

**Credit Facility** means a letter of credit, revolving credit agreement, standby purchase agreement, surety bond, insurance policy, guaranty or similar obligation, arrangement or instrument issued by a bank, insurance company or other financial institution or the federal government or an agency thereof which (1) provides for payment of all or a portion of the principal of, Redemption Price of, or interest on any Series of Bonds, (2) provides funds for the purchase of such Bonds or portions thereof, (3) provides deposits for a fund or account under the General Resolution, or (4) provides for or further secures payment of Loans or Municipal Obligations, provided that with respect to (3) above, the issuer of which Credit Facility is rated, or the effect of which Credit

Facility would cause bonds insured or secured thereby to be rated, in a rating category by each Rating Agency no lower than the then current rating on the Bonds (without such Credit Facility).

**Debt Service** for any period means, as of any date of calculation and with respect to any Series, an amount equal to the sum of (1) interest payable during such period on Bonds of such Series, (2) that portion of the Principal Installments for such Series which are payable during such period, and (3) any “Reimbursement Obligation” or “Parity Reimbursement Obligation” as defined in the General Resolution. Such interest and Principal Installments for such Series shall be calculated on the assumption that no Bonds of such Series Outstanding at the date of calculation will cease to be Outstanding except by reason of the payment of each Principal Installment on the due date thereof.

**Debt Service Fund** means the fund of that name established by the General Resolution.

**Depository** means any bank, trust company, or national banking association, which may be the Trustee, selected by the Commission and approved by the Trustee as a depository of moneys and securities held under the provisions of the General Resolution and its successor or successors.

**Direct Loan** means loans made primarily from the proceeds of federal Capitalization Grants, the State Match, or repayments of Direct Loans, and excludes any Leveraged Loan.

**DNR** means the State of Wisconsin Department of Natural Resources.

**DOA** means the State of Wisconsin Department of Administration.

**DTC** means The Depository Trust Company, New York, New York.

**Environmental Improvement Fund** means the nonlapsible trust fund of that name created by Section 25.43 of the Statutes.

**EPA** means the United States Environmental Protection Agency.

**Expense Account** means the account of that name established within the Administrative Fund established by the General Resolution.

**Fees and Charges** means all fees and charges, if any, charged by the State to Municipalities pursuant to the terms and provisions of Loans or Municipal Obligations but does not include principal of and interest on such Municipal Obligations.

**Fiduciary** or **Fiduciaries** means the Trustee, any Paying Agent, any Depository or any or all of them, as may be appropriate.

**Financial Assistance Agreement** means any agreement entered into between DNR, DOA, and a Municipality for financial assistance.

**Fiscal Year** means any 12 consecutive calendar months commencing with the second day of June and ending on the first day of the following June.

**General Resolution** means the Clean Water Revenue Bond General Resolution adopted by the Building Commission on March 7, 1991, as the same may be amended and supplemented from time to time.

**Information Services** means an institution or other service providing information with respect to called bonds, which shall include but not be limited to those identified in the General Resolution and others designated by an Authorized Officer.

**Interest Account** means the account of that name established within the Debt Service Fund by the General Resolution.

**Investment Obligation** means any of the following that at the time are legal investments for moneys of the State:

(1) direct general obligations of the United States of America and obligations (including obligations of any federal agency or corporation) the payment of the principal and interest on which, by act of the Congress of the United States or in the opinion of the Attorney General of the United States in office at the time such obligations were issued, are unconditionally guaranteed by the full faith and credit of the United States of America, or so long as at the time of their purchase such investments will not adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency, any other evidences of an ownership interest in obligations or in specified portions thereof (which may consist of specified portions of the interest thereon) of the character described in this clause (1);

(2) any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (a) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (b) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or bonds or other obligations of the character described in clause (1) hereof which fund may be applied only to the payment of interest when due, principal of and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, (c) as to which the principal of and interest on the bonds and obligations of the character described in clause (1) hereof which have been deposited in such fund along with any cash on deposit in such fund is sufficient to pay interest when due, principal of and redemption premium, if any, on the bonds or other obligations described in this clause (2) on the maturity date or dates thereof or on the redemption date or dates specified in the irrevocable instructions referred to in subclause (a) of this clause (2), as appropriate, and (d) which at the time of their purchase under the General Resolution bear the highest rating available from each Rating Agency;

(3) bonds, debentures, participation certificates (representing a timely guaranty of principal and interest), notes or similar evidences of indebtedness of any of the following: Federal Financing Bank, Federal Home Loan Bank System, Federal Farm Credit Bank, Federal National Mortgage Association (excluding “stripped” securities), Federal Home Loan Mortgage Corporation, Resolution Funding Corporation, Government National Mortgage Association, Student Loan Marketing Association or Tennessee Valley Authority;

(4) public housing bonds issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States of America; or temporary notes, preliminary notes or project notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America; provided, however, that any investment purchased pursuant to this clause shall be rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(5) obligations of any state of the United States of America or of any political subdivision or public agency or instrumentality thereof, including the State, provided that at the time of their purchase under the General Resolution such obligations are rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(6) direct obligations of the State or obligations guaranteed by the State that have the same rating as direct obligations of the State;

(7) prime commercial paper of a corporation incorporated under the laws of any state of the United States of America, having at the time of their purchase under the General Resolution the highest rating available from each Rating Agency;

(8) interest-bearing time deposits, certificates of deposit or other similar banking arrangements with banks (which may include any Fiduciary), provided such deposits are made with banks rated by each Rating Agency at the time the deposit is made no lower than the rating assigned to the Bonds by such Rating Agency;

(9) shares of a diversified open-end management investment company as defined in the Investment Company Act of 1940, which is a money market fund, which are rated at the time of their purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency;

(10) repurchase agreements for obligations of the type specified in clauses (1) and (3) above, provided either (a) the repurchase agreement is an unconditional obligation of the counterparty and such counterparty is rated at the time of its purchase by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or (b) the repurchase agreement is an obligation of a counterparty that is rated at the time of its purchase by each Rating Agency in an investment grade category and is collateralized by obligations which are marked to market daily and have a value equal to not less than the percentage of the amount thereby secured specified by each Rating Agency, taking into account the maturity of such obligations;

(11) any investment obligation or deposit the investment in which will not, at the time such investment is made, adversely affect the then current ratings, if any, assigned to the Bonds by each Rating Agency;

(12) any investment agreement with a bank, bank holding company, insurance company or other financial institution rated at the time such investment is made by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency or guaranteed by an entity rated by each Rating Agency no lower than the rating assigned to the Bonds by such Rating Agency; and

(13) the Local Government Pooled–investment Fund of the State established under Chapter 25 of the Wisconsin Statutes.

**Loan or Leveraged Loan** means a loan heretofore or hereafter made by the State to a Municipality from the Loan Fund pursuant to a Financial Assistance Agreement and the Act and funded from the Loan Fund.

**Loan Credit Reserve Fund** means the fund of that name established by the General Resolution.

**Loan Credit Reserve Fund Requirement** means and is calculated as follows:

(1) Upon the issuance of the initial Series of Bonds, an Authorized Officer delivered to the Trustee, with respect to each Rating Agency, a schedule of credit quality

categories and loan credit reserve fund requirements (**Loan Credit Reserve Fund Schedule** or **Schedule**) approved by such Rating Agency. Each Schedule sets forth the percentage of the annual debt service attributable to each Loan disbursement from the Loan Fund to be deposited in the Loan Credit Reserve Fund with respect to each Loan disbursement. A Schedule may be amended from time to time upon the presentation to the Trustee of a certificate of an Authorized Officer, supported by a certificate from the Rating Agency to which such Schedule applies, confirming that such amendment to the Schedule will not adversely affect the then-outstanding rating assigned to the Bonds by such Rating Agency.

(2) The amount required in the Schedules for each Loan disbursement from the Loan Fund (and if the Schedules provide for different amounts, then the higher amount) is the “**Contribution Amount**”.

(3) The Loan Credit Reserve Fund Requirement shall be, as of any date of calculation, the total Contribution Amount derived from each Schedule (and if the Schedules provide for a different total Contribution Amount, then the higher total Contribution Amount) that would be required were all disbursements from the Loan Fund outstanding to be disbursed on that date, based on the then-current Schedules.

**Loan Fund** means the fund of that name established by the General Resolution.

**Loan Repayments or Leveraged Loan Repayments** means any payment on a Loan pursuant to a Financial Assistance Agreement, or on the Municipal Obligations evidencing and securing the same, on account of the principal, interest, and premium, if any, due on such Loan, including without limitation scheduled payments of principal and interest on such Loan or Municipal Obligation, any payment made to cure a default, prepayments of principal or interest, and any additional amounts payable upon prepayment of such Loan or Municipal Obligations, and any amounts paid with respect to such Loan or Municipal Obligation on account of (1) acceleration of the due date of such Loan or such Municipal Obligation, (2) the sale or other disposition of such Loan or the Municipal Obligations and other collateral securing such Loan, (3) the receipt of proceeds of any insurance or guaranty of such Loan or Municipal Obligations or any Credit Facility applicable to such Loan or Municipal Obligations, and (4) the exercise of any right or remedy granted to the State and available under law or the applicable Financial Assistance Agreement upon default on such Loan or Municipal Obligations but specifically excluding Fees and Charges.

**Municipal Obligations** means the bonds, notes, or other evidence of debt issued by any Municipality and authorized by law and which have heretofore been or will hereafter be acquired by the State as evidence of indebtedness of a Loan, Direct Loan, or Proprietary Loan to the Municipality pursuant to the Act. Municipal Obligations may constitute any of a combination of the following: a revenue obligation secured by a covenant to assess user fees and a pledge of the utility’s revenues, a revenue obligation secured by special assessments and other utility revenue and a pledge of the utility’s revenues, a general obligation secured by a tax levy and a pledge of all available financial resources of the Municipality.

**Municipality** means a political subdivision of the State constituting a “municipality” within the meaning of the Act, duly organized and existing under the laws of the State and any successor entity or a Federally recognized American Indian tribe or band in the State.

**Non-SRF Account** means account of that name established within the Loan Credit Reserve Fund.

**Notes** means any bond anticipation notes issued by the State pursuant to the Act.

**NRMSIR** means nationally recognized municipal securities information repository.

**Outstanding**, when used with reference to Bonds, other than Bonds referred to in Section 10.05 of the General Resolution (addressing Bonds owned or held by or for the account of the State), means, as of any date, Bonds theretofore or then being delivered under the provisions of the General Resolution, except: (1) any bonds cancelled by the Trustee or any Paying Agent at or prior to such date, (2) any Bonds for the payment or redemption of which moneys equal to the principal amount or Redemption Price thereof, as the case may be, with interest to the date of maturity or redemption date, shall be held by the Trustee or the Paying Agents in Trust (whether at or prior to the maturity or redemption date), provided that if such Bonds are to be redeemed, irrevocable notice of such redemption shall have been given as provided in the General Resolution or provision satisfactory to the Trustee shall have been made for the giving of such notice, (3) any Bonds in lieu of or in substitution for which other Bonds shall have been delivered pursuant to the General Resolution, and (4) Bonds deemed to have been paid as provided in Article 12 of the General Resolution (addressing defeasance). In determining whether Bondowners of the requisite amount of Outstanding Bonds have given any requisite demand, authorization, direction, notice, consent or waiver under the General Resolution, the principal amount of a Capital Appreciation Bond that shall be deemed Outstanding for such purposes shall be the Accreted Value thereof.

**Paying Agent** for the Bonds of any Series means the bank, trust company, or national banking association, which may be the Trustee, and its successor or successors, appointed pursuant to the provisions of the General Resolution and a Series Resolution or any other resolution of the Commission adopted prior to authentication and delivery of the Series of Bonds for which such Paying Agent or Paying Agents shall be so appointed.

**Pledged Receipts** means:

- (1) all Loan Repayments, including both timely and delinquent payments,
- (2) Fees and Charges held or collected by the State,
- (3) any moneys received by the State under Section 281.59 (11)(b) of the Wisconsin Statutes (that is, State payments intercepted by DOA, and taxes collected by county treasurers) upon a default under a Municipal Obligation,
- (4) any moneys made available to the Clean Water Fund Program pursuant to Section 281.59 (13m) of the Wisconsin Statutes (that is, the State “moral obligation” for individual Loans),
- (5) any moneys collected by recourse to collateral and security devices under the Municipal Obligations, and
- (6) any other moneys held or received by the State or the Trustee relating to the Municipal Obligations.

**Principal Account** means the account of that name established within the Debt Service Fund by the General Resolution.

**Principal Installment** means, as of any date of calculation and with respect to any Series of Bonds Outstanding, (1) the principal amount or Accreted Value of Bonds of such Series due on any payment date for which no Sinking Fund Installments have been established, or (2) the Sinking Fund Installment due on a date for Bonds of such Series, or (3) if such dates coincide, the sum of such principal amount or Accreted Value of Bonds and of such Sinking Fund Installment(s) due on such future date; in each case in the amounts and on the dates as provided

in the Series Resolution authorizing such Series of Bonds; provided, however, that Principal Installments shall not include the principal of Notes.

**Project** means any municipal project for the design, acquisition, construction, improvement, repair, reconstruction, renovation, or expansion of any municipal wastewater collection or treatment system or water supply system that is eligible for financing by the State pursuant to the Act.

**Proprietary Loan** means financial assistance made primarily from the proceeds of State general obligation bonds or repayment of Proprietary Loans, and excludes any Direct Loan or Leveraged Loan.

**Rating Agency** means a credit rating agency which is nationally recognized for skill and expertise in rating the credit of obligations similar to the Bonds and which has assigned and currently maintains a rating on any Outstanding Bonds at the request of the State (which request may be withdrawn by the State so long as following such withdrawal of request, the Bonds are rated by at least two Rating Agencies), and any successor to any such agency by merger, consolidation or otherwise.

**Rebate Fund** means the fund of that name established by the General Resolution.

**Record Date** means, unless otherwise determined by a Series Resolution for a Series of Bonds, the close of business on the 15th day proceeding a payment date or, if such day shall not be a business day, the immediately preceding business day.

**Redemption Account** means the account of that name established within the Debt Service Fund by the General Resolution.

**Redemption Price**, when used with respect to a Bond other than a Capital Appreciation Bond, or a portion thereof to be redeemed, means the principal amount of such Bond or such portion thereof plus the applicable premium, if any, payable upon redemption thereof, plus interest to the redemption date, pursuant to the General Resolution and the applicable Series Resolution, but, when used with respect to a Capital Appreciation Bond, "Redemption Price" means the Accreted Value on the date of redemption of such Bond or portion thereof plus the applicable premium, if any.

**Refunding Bonds** means all Bonds constituting the whole or a part of a Series of Bonds delivered on original issuance to refund other Bonds.

**Revenue Fund** means the fund of that name established by the General Resolution.

**Series of Bonds or Bonds of a Series** or words of similar meaning means the series of Bonds authorized by a Series Resolution.

**Series Resolution** means a resolution of the Building Commission authorizing the issuance of a Series of Bonds in accordance with the terms and provisions of the General Resolution.

**Sinking Fund Installment** means, as of any particular date of calculation, (i) the amount required by the General Resolution and a Series Resolution to be deposited by the State for the retirement of Bonds which are stated to mature subsequent to such date or (ii) the amount required by the General Resolution and a Series Resolution to be deposited by the State on a date for the payment of Bonds at maturity on a subsequent date.

**SRF Account** means the account of that name established within the Loan Credit Reserve Fund by the General Resolution.

**State** means the State of Wisconsin.

**State Equity Fund** means the fund of that name established by the General Resolution.

**Subsidy Fund** means the fund of that name established by the General Resolution.

**Subsidy Fund Requirement** means that amount which, when invested as permitted in the General Resolution, is projected by an Authorized Officer to result in an amount being available during each period commencing immediately following the dated date of the initial Series of Bonds and thereafter an interest payment date and ending on the next interest payment date (**Period**) which is at least equal to the amount by which Aggregate Debt Service payable during the period exceeds the sum of (1) scheduled disbursements from the Capitalized Interest Account and (2) Loan Repayments scheduled to be received during the Period from sources other than transfers of Loan capitalized interest from the Loan Fund. In making the projections set forth above, the State may treat undisbursed amounts in the Loan Fund as if (a) such undisbursed amounts are invested at an appropriate rate of interest to the final maturity of Bonds and (b) such undisbursed amounts and the earnings thereon are transferred from time to time to the Revenue Fund to pay debt service, and for purposes of calculating the Subsidy Fund Requirement, such amounts may be treated as if they were Loan Repayments made pursuant to clause (2) above; provided that prior to each Loan disbursement the State recalculates the Subsidy Fund Requirement assuming for purposes of calculation that the disbursement has been made (and the amount is repayable in accordance with the applicable Municipal Obligations), and if such calculation fails to confirm that following the disbursement the Subsidy Fund Requirement is met, the State refrains from making a requisition for the disbursement.

**Subsidy Fund Transfer Amount** means that amount equal to the amount by which Aggregate Debt Service payable during the Period (as such term is used in the definition of Subsidy Fund Requirement) exceeds the sum of (1) Loan Repayments scheduled to be received and delinquent Loan Repayments actually received during the Period, (2) earnings on the Loan Credit Reserve Fund deposited in the Revenue Fund during the Period, (3) any moneys on deposit in the Revenue Fund, the Interest Account of the Debt Service Fund, or the Principal Account of the Debt Service Fund at the beginning of the Period, (4) any amounts in the Loan Fund transferred to the Revenue Fund during the Period as directed in a certificate of an Authorized Officer, and (5) amounts scheduled to be transferred from the Capitalized Interest Account to the Interest Account during such Period.

**Supplemental Resolution** means a resolution supplemental to or amendatory of the General Resolution, adopted by the Commission in accordance with the General Resolution.

**Trustee** means U. S. Bank National Association, as successor to Firststar Trust Company, and its successor or successors and any other bank, trust company or national banking association at any time substituted in its place pursuant to the General Resolution.

## APPENDIX E

### LOAN CREDIT RESERVE FUND SCHEDULES

#### Introduction

The General Resolution establishes the amount and timing of funds and securities required to be deposited or on deposit in the Loan Credit Reserve Fund, based on Schedules reviewed by no less than two Rating Agencies. The State, with the consent of a Rating Agency, may from time to time change the Schedule previously approved by such Rating Agency so long as the change does not adversely affect the then-current rating on the Bonds. To the extent the amount of the deposit or amount on deposit required by the Schedule approved by one Rating Agency differs from the amount required by the Schedule approved by another Rating Agency, the larger amount is required. As of June 30, 2002 the amount held in the Loan Credit Reserve Fund was \$73 million, and the amount required on such date was \$59 million.

#### Current Schedules

The underlying rating on the Bonds is currently AA+ by Fitch Ratings (**Fitch**), Aa2 by Moody's Investors Service, Inc. (**Moody's**) and AA+ by Standard & Poor's Ratings Services (**S&P**). Each of the following Schedules has been approved by the respective Rating Agency indicated.

##### *Fitch Ratings*

Based on certain credit characteristics, each Loan will be assigned to one of six credit categories, which are explained below. Any assignment of a Loan to a credit category other than "Not Rated; Interceptable State Aid Factor 2.0 or Greater" or "Not Rated; Interceptable State Aid Factor Less Than 2.0" is subject to review by Fitch. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund with respect to a particular Loan and any amounts disbursed under that Loan differs, depending on the borrower. The Municipality with total outstanding General Resolution Leveraged Loans in a credit category below that of the Bonds, such that the Municipality's outstanding Loan amount is larger than that of any other Municipality with outstanding Loans in credit categories below that of the Bonds, is the "Largest Borrower Below Bond Credit Quality". The required deposit attributable to the Largest Borrower Below Bond Credit Quality shall equal the total of all debt service payments attributable to the Loan or Loans to that Borrower over the four-year period in which such debt service payments are the greatest. For any Loans to borrowers other than the Largest Borrower Below Bond Credit Quality, the required deposit shall equal the product of the total of all debt service payments attributable to such Loans over the four-year period in which such debt service payments are the greatest times the factor, described below, assigned to Loans of the applicable credit category.

Loans are currently assigned to credit categories based on one or more of the following characteristics, (1) the Fitch rating given to the Municipal Obligation (or its lack of a Fitch rating), (2) the credit quality estimate for the Municipal Obligation based on information available to Fitch from sources it believes to be reliable, or (3) the anticipated amount of annual State payments that can potentially be intercepted by DOA.

The State recognizes that the credit quality estimate, or "shadow rating", is not necessarily the official or public Fitch ratings for the Municipal Obligation and are used solely for purposes of analyzing the credit quality of the Bonds. The intercept power is described under "SECURITY AND SOURCE OF PAYMENT FOR BONDS; State Aid Intercept" in Part VI of the State's Continuing Disclosure Annual Report, dated December 19, 2001 (**2001 Annual Report**). See **APPENDIX A**. If

the Municipal Obligation is not rated by Fitch, the State may request that Fitch assign a credit quality estimate, or “shadow rating”, for the Municipal Obligation.

Credit categories to which Loans may be assigned by Fitch currently include the following:

“AAA” Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of the highest credit quality, denoting the lowest expectation of credit risk. Assignments to this category are made only in cases of exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

“AA” Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of very high credit quality, denoting a very low expectation of credit risk. Assignments to this category are made in cases of very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

“A” Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of high credit quality, denoting a low expectation of credit risk. Assignments to this category are made in cases of strong capacity for timely payment of financial commitments. Nevertheless, this capacity may be more vulnerable to changes in circumstances or in economic conditions than is the case for higher credit quality categories.

“BBB” Credit Quality Category. A Loan is assigned to this category if its related Municipal Obligation is deemed to be of good credit quality, denoting a currently low expectation of credit risk. Assignments to this category are made in cases of adequate capacity for timely payment of financial commitments. Adverse changes in circumstances and in economic conditions are more likely to impair this capacity than is the case for higher credit quality categories.

Not Rated; Interceptable State Aid Factor 2.0 or Greater. The anticipated amount of annual State payments that can potentially be intercepted by the State is determined by DOA based on the minimum of the five most recent years for which data are available of one source of State payments to the Municipality: State shared revenue. A Loan is currently assigned to this category if its related Municipal Obligation is: (1) not rated by Fitch or categorized as being of speculative grade credit quality by Fitch, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State equals or exceeds twice the maximum annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

Not Rated; Interceptable State Aid Factor Less Than 2.0. A Loan is currently assigned to this category if its related Municipal Obligation is: (1) not rated by Fitch or categorized as being of speculative grade credit quality, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State is less than twice the maximum annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

The following chart shows the current factor assigned to each of the six credit categories by Fitch.

<u>Category</u>	<u>Factor</u>
'AAA' Credit Quality Category	0%
'AA' Credit Quality Category	0
'A' Credit Quality Category	8
'BBB' Credit Quality Category	14
Not Rated; Interceptable State Aid Factor 2.0 or Greater	8
Not Rated; Interceptable State Aid Factor Less Than 2.0	36

The State recognizes that lower factors may be assigned to Loans related to Municipal Obligations that are deemed by Fitch to be general obligations secured by the Municipality's full faith and credit, based on Fitch's current rating guidelines for leveraged municipal loan pools. However, the State does not currently opt to assign such lower factors to such Loans, since the above factors result in a more conservative level of funding for the Loan Credit Reserve Fund.

The State recognizes that Fitch's rating on the Bonds is based only in part upon the level of funding in the Loan Credit Reserve Fund and the credit quality of borrowers from Bond funds. Other factors upon which the Bonds' rating is based currently include, but are not limited to, Fitch's general obligation bond rating for the State of Wisconsin, as well as structural and legal characteristics of the Clean Water Fund Program, Clean Water Fund Program management, Clean Water Fund Program loan underwriting practices, Clean Water Fund Program loan monitoring practices, and permitted Clean Water Fund Program investments. The State recognizes that factors upon which the Bonds' rating is based may change in the future. The State asserts that it expects to maintain the Loan Credit Reserve Fund at approximately the same proportional levels as it has since inception of the Clean Water Fund Program, and the State recognizes that the rating maintained by Fitch may be based on the maintenance of amounts greater than the amounts required under this particular Loan Credit Reserve Fund Schedule. The State agrees to maintain the Loan Credit Reserve Fund investments as either rated or ratable in the same credit rating category as the Bonds. The State further agrees that, if practicable, it will provide Fitch with at least 30 days notice of significant changes in either the credit quality or amounts maintained in the Loan Credit Reserve Fund.

*Moody's Investors Service, Inc.*

As part of the Schedule submitted to Moody's, the State has indicated that it will maintain the Loan Credit Reserve Requirement at a level that corresponds to certain Loan portfolio credit characteristics. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund is the product of the average annual debt service of the outstanding, disbursed Loans times a factor of 120%, and is based on an evaluation of the Loans shown in **APPENDIX A**. A different factor may be applied if Loan portfolio credit characteristics change.

*Standard & Poor's Ratings Services*

Based on certain credit characteristics, each Loan will be assigned one of five categories, which are explained below. The amount required to be deposited or on deposit in the Loan Credit Reserve Fund with respect to a particular disbursement from the Loan Fund is the product of the maximum annual debt service payment on the Loan attributable to the disbursement times the factor assigned to that particular category.

The following chart shows the current factor assigned to each of the five categories by S&P. Following the chart is an explanation of the characteristics of each category.

<u>Category</u>	<u>Factor</u>
Higher Investment Grade Rating	0%
Medium Investment Grade Rating	40
Lower Investment Grade Rating	64
Not Rated; Greater State Aids	40
Not Rated; Lesser State Aids	140

Loans are categorized based on two characteristics: (1) the rating given to the Municipal Obligation (or its lack of a rating), and (2) the anticipated amount of annual State payments that can potentially be intercepted by DOA.

The intercept power is described under “SECURITY AND SOURCE OF PAYMENT FOR BONDS; State Aid Intercept” in Part VI of the 2001 Annual Report. See APPENDIX A. If the Municipal Obligation is not rated by S&P, the State may request permission from S&P to assign the Municipal Obligation to a particular category.

The anticipated amount of annual State payments that can potentially be intercepted by DOA is determined by DOA based on the minimum of the five most recent years for which data are available of one source of State payments to the Municipality–State shared revenue.

Higher Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in either of the two highest rating categories (AAA;AA).

Medium Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in the third highest rating category (A). S&P may also permit a Loan to be assigned to this category, regardless of whether or not the Municipal Obligation is rated, in the event the State designates the Loan as one to which the State “moral obligation” applies. The State “moral obligation” is described in “SECURITY AND SOURCE OF PAYMENT FOR BONDS” in Part VI of the 2001 Annual Report. See APPENDIX A.

Lower Investment Grade Rating. A Loan is assigned to this category if the Municipal Obligation is rated by S&P in the minimum investment grade rating category (BBB).

Not Rated; Greater State Aids. A Loan is assigned to this category if the Municipal Obligation is: (1) either is not rated or is rated below investment grade, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State equals or exceeds twice the average annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

Not Rated; Lesser State Aids. A Loan is assigned to this category if the Municipal Obligation is: (1) either is not rated or is rated below investment grade, and (2) the anticipated amount of annual State payments that can potentially be intercepted by the State is less than twice the average annual debt service payments on the entire amount of the Loan, whether or not the entire amount has been disbursed.

The State recognizes that the rating maintained by S&P is based in part upon the level of funds available in the Loan Credit Reserve Fund. The State asserts that it expects to maintain the Loan Credit Reserve Fund at approximately the same proportional levels as it has since inception of the Clean Water Fund Program, and the State recognizes that the rating maintained by S&P may be based on the maintenance of amounts greater than the amounts required under this Loan Credit Reserve Fund Schedule. The State agrees to maintain the Loan Credit Reserve Fund investments as either rated or ratable in the same rating category as the Bonds. The State further

agrees that, if practicable, it will provide S&P with at least 30 days notice of significant changes in either the credit quality or amounts maintained in the Loan Credit Reserve Fund.

The State agrees that if the rating on or ratability of an investment in the Loan Credit Reserve Fund is based on either a credit enhancement policy or financial guarantee, the State will notify S&P not less than 30 days prior to the expiration of such policy and indicate what action, if any, is expected to be taken with respect to the credit quality of the investment.

**Ratings on Municipal Obligations**

Any explanation of the significance of a rating with respect to a Municipal Obligation may only be obtained from the Rating Agency furnishing the rating. There is no assurance that the rating given to a Municipal Obligation will be maintained for any period of time; a rating may be lowered or withdrawn entirely by the Rating Agency if in its judgment circumstances warrant.

## APPENDIX F

### FORM OF BOND COUNSEL OPINION

*Upon delivery of the 2002 Series 2 Bonds, Michael Best & Friedrich LLP expects to deliver to the State a legal opinion in substantially the following form:*

**(Letterhead of Michael Best & Friedrich LLP)**

**\$85,575,000**

**State of Wisconsin**

**Clean Water Revenue Refunding Bonds, 2002 Series 2**

We have acted as bond counsel in connection with the issuance by the State of Wisconsin (**State**) of \$85,575,000 aggregate principal amount of Clean Water Revenue Refunding Bonds, 2002 Series 2 (**2002 Series 2 Bonds**). We have examined: (1) the constitution and laws of the State, including particularly Subchapter II of Chapter 18 and Sections 281.58 and 281.59 of the Wisconsin Statutes (**Act**); (2) a certified copy of the proceedings of record of the State preliminary to and in connection with the issuance of the 2002 Series 2 Bonds, including particularly 1991 State of Wisconsin Building Commission Resolution 5 dated March 7, 1991 entitled "Clean Water Revenue Bond General Resolution" (**General Resolution**), and 2002 State of Wisconsin Building Commission Resolution No. 4 dated January 16, 2002 entitled "Resolution Authorizing Not to Exceed \$108,205,000 Clean Water Revenue Refunding Bonds" (collectively, **Resolutions**); (3) the Internal Revenue Code of 1986, as amended (**Code**), including particularly Sections 103, 141 and 148 thereof; and (4) such other documents and records as we have deemed necessary to render this opinion. We have also examined one of the 2002 Series 2 Bonds and have found it to be in proper form.

The 2002 Series 2 Bonds are dated August 1, 2002; are payable as to interest on June 1 and December 1 in each year until maturity, commencing December 1, 2002; are issuable in fully registered form without coupons in denominations of \$5,000 or any integral multiple thereof; are subject to redemption prior to maturity in the manner and upon the terms and conditions set forth in the 2002 Series 2 Bonds and in the Resolutions; and mature on the dates and in the principal amounts and will bear interest at the rates set forth below:

<u>Year</u> <u>(June 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Year</u> <u>(June 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2003	\$ 995,000	3.00%	2010	\$ 4,840,000	4.00%
2004	240,000	3.00	2011	9,850,000	4.00
2005	4,940,000	5.00	2012	5,185,000	5.50
2006	9,825,000	5.00	2013	8,640,000	5.50
2007	10,315,000	5.00	2014	3,555,000	5.50
2008	14,915,000	5.25	2015	3,740,000	5.50
2009	4,600,000	5.25	2016	3,935,000	5.50

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certificates of officers of the State and other public officials furnished to us, without undertaking to verify the same by independent investigation, and we have assumed compliance with and enforcement of the provisions of: (1) the Tax Regulatory Agreement, dated the date hereof, and (2) the Financial Assistance Agreement to be entered into between the State and each municipal borrower. The rights of the owners of the 2002 Series 2 Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and to the exercise of judicial discretion in accordance with general principles of equity.

Based on the foregoing, we are of the opinion that, as of the date hereof:

1. The State has the valid right and lawful authority to issue the 2002 Series 2 Bonds, to provide financial assistance to local governmental units for the improvement of publicly owned wastewater treatment facilities, to adopt the Resolutions and to perform its obligations under the terms and conditions of the Resolutions.
2. The Resolutions have been duly and lawfully adopted by the Building Commission, are in full force and effect, and constitute valid and binding obligations of the State enforceable in accordance with their terms.
3. The General Resolution creates the valid pledge that it purports to create of the “Pledged Receipts,” as defined in the General Resolution, and other revenues, receipts, funds or moneys pledged under the General Resolution.
4. The 2002 Series 2 Bonds are valid and binding revenue obligations of the State secured by a pledge in the manner and to the extent set forth in the General Resolution, and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements of the General Resolution on a parity with all other obligations that have been heretofore or may be hereafter issued under the General Resolution.
5. The 2002 Series 2 Bonds are not general obligations of the State, its agencies, instrumentalities or political subdivisions, and the 2002 Series 2 Bonds do not constitute “public debt” of the State as that term is used in the constitution and laws of the State. The State is not obligated to pay the principal or redemption price of or interest on the 2002 Series 2 Bonds from any funds of the State other than those pledged pursuant to the Resolutions, and neither the faith nor credit nor taxing power of the State or any agency, instrumentality or political subdivision thereof is pledged to the payment of the principal or redemption price of or interest on the 2002 Series 2 Bonds.
6. The provisions of the Act relating to the State’s moral obligation do not violate the constitution of the State or any law of the State, but such provisions do not constitute a legally enforceable obligation or create debt on behalf of the State.
7. Interest on the 2002 Series 2 Bonds is excluded for federal income tax purposes from the gross income of the owners of the 2002 Series 2 Bonds under existing law.
8. Interest on the 2002 Series 2 Bonds will not be included as an item of tax preference for purposes of calculating the alternative minimum tax imposed on individuals and corporations. Ownership of 2002 Series 2 Bonds may result in collateral federal income tax consequences to financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry 2002 Series 2 Bonds. In addition, certain foreign corporations doing business in the United States may be subject to a “branch profits tax” on their effectively connected earnings and profits, including interest on the 2002 Series 2 Bonds.

Michael Best & Friedrich LLP

**Appendix G**

**OUTSTANDING BONDS  
REFUNDED BY 2002 SERIES 2 BONDS**

<b>Series</b>	<b>Dated Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Maturity</b>	<b>CUSIP</b>	<b>Redemption Date</b>	<b>Redemption Price</b>
1993 Series 1	8/15/1993	\$ 4,690,000	4.800%	6/1/2005	977092 CB9	6/1/2004	100%
		4,915,000	4.900	6/1/2006	977092 CC7		
		5,155,000	5.000	6/1/2007	977092 BH7		
		5,415,000	5.125	6/1/2008	977092 BK0		
1995 Series 1	7/1/1995	4,640,000	5.100	6/1/2006	977092 CP8	6/1/2005	100
		4,875,000	5.200	6/1/2007	977092 CQ6		
		5,130,000	5.300	6/1/2008	977092 CR4		
1997 Series 1	1/15/1997	4,080,000	5.100	6/1/2008	977092 DJ1	6/1/2007	100
		4,285,000	5.125	6/1/2009	977092 DK8		
		4,505,000	5.250	6/1/2010	977092 DL6		
		4,740,000	5.300	6/1/2011	977092 DM4		
		4,990,000	5.375	6/1/2012	977092 DN2		
		5,260,000	5.400	6/1/2013	977092 DP7		
1998 Series 1	1/15/1998	4,815,000	5.000	6/1/2011	977092 EG6	6/1/2008	100
1999 Series 1	8/15/1999	4,300,000	5.500	6/1/2013	977092 FT7	6/1/2009	100
		4,525,000	5.500	6/1/2014	977092 FU4		
		4,760,000	5.500	6/1/2015	977092 FV2		
		5,015,000	5.500	6/1/2016	977092 FW0		
		86,095,000					

**Appendix H**  
**FINANCIAL GUARANTY INSURANCE POLICY**  
**MBIA Insurance Corporation**  
**Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]**

**[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest: \_\_\_\_\_

Assistant Secretary